11/10/87 B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 23

Monday, November 9, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

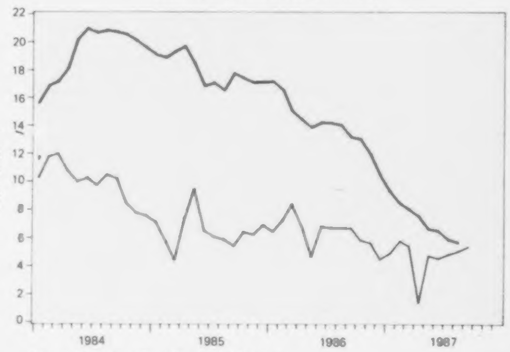
Is The Party Over For Consumer Spending?

With the Halloween costumes barely stored away and the winter clothing still retaining a faint smell of moth balls, a discussion of the Holiday season may seem a bit premature. But the stock market crash of October has changed all the rules for the fourth-quarter economy. And despite the "tradition" that the Holiday shopping season starts on the day after Thanksgiving, this year it may not start at all.

Already, upscale retailing, especially for automobiles, has been hurt by the crash. But even for the majority of Americans not in the market for BMWs or diamond tennis bracelets, the fall on Wall Street has become cause for worry. The Conference Board reports consumer confidence slipped as a result of the stock market debacle and that 74 percent of consumers recently surveyed were concerned about the market's volatility. However, an equal proportion indicated that the plunge would not change their buying plans for major items, probably because many big-ticket purchases, such as a car or household appliance, cannot long be postponed and because, in reality, only about 20 percent of Americans directly own stock.

Reality and perception, however, are two different things. Despite its low number of participants, the stock market has long been a barometer for this country's future economic condition—as well as its current one. And with the 27 percent drop in the Dow Jones Industrial Average from August through the end of October, the fear is that wary consumers will lock up their credit cards and slash their shopping lists, making this Holiday season the glummest for retailers in the past few years.

Even without the market debacle, this year's fourth-quarter consumer spending would probably have been close to last year's level. One reason is that many consumers increased their spending at the end of 1986 in order to beat the loss of sales tax deductions in 1987. In addition, other developments were already pointing to fundamental problems brewing in the consumer sector, including the still rapid accumulation of debt, the slowdown in income growth and the slackness in job creation.


CONSUMER INSTALLMENT DEBT OUTSTANDING (THICK) VS. DISPOSABLE PERSONAL INCOME (THIN) (12-MONTH PERCENT CHANGE)

Sources: Federal Reserve Board, Department of Commerce

A Love Affair With Debt

Just like the Federal government, the American consumer has developed a fondness for debt. At the start of September 1987, consumer installment credit outstanding—including credit cards, personal bank loans and automobile financing—stood at nearly $600 billion, 37 percent of which had been taken on in just the last 3½ years. As a result, installment credit as a percent of disposable income has skyrocketed from 14 percent in 1983 to 18¾ percent currently.

In addition, credit cards are being used more often. According to the Federal Reserve, the percent of families having credit card debt alone increased by almost 10 percent from 1983 to 1986, and the proportion of installment debt repayments that went toward credit cards rose from 16.9 percent in 1983 to 25.3 percent last year.

While installment debt alone may seem manageable, consumers have also upped their mortgage debt—and not only to purchase homes. The Fed estimates that household mortgage debt grew 45 percent from 1983 to 1986 while the underlying property values rose only 26 percent. And now that the tax deductibility of most interest payments is being phased out, second mortgage

Copyright 1987 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

and home equity loans (whose interest is still a deduction) will surely grow more popular in the future. Although no figures are kept on home equity loans, loans secured by real estate have grown at an annual rate of 19 percent since the end of 1986. Considering that total home sales are sharply below year-ago levels, the bulk of this increase must have been in the form of home equity debt.

Slowdown In Income Growth

The growth in debt would not be so alarming, if it were accompanied by similar increases in personal income. But such is not the case. As can be seen from the chart on page 1, increases in consumer debt were twice as large as disposable income during 1984 and 1985. Since then, the gap has narrowed, but debt growth is still faster than that of incomes. On an inflation-adjusted basis, the picture is bleaker. Real disposable income was up a meager 0.7 percent for the 12 months ending in August.

One cause of the slowdown in income growth is the recent sluggishness in job creation. In 1984 and 1985, new workers were added to the nation's payrolls at a monthly rate of 272,000; by 1986 and 1987, that figure had dropped to 179,000. Despite the low un-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/87)	170,036	+ 1,015	+ 15,542
New York City (10/28/87)	38,747	— 85	+ 5,329
Commercial Paper (10/28/87)	361,825	— 1,695	+ 26,363

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/87)	274,301	+ 95	+12,904
New York City (10/28/87)	59,138	+ 1,082	+ 990

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/87)	814,440	+ 9,997	+60,872
New York City (10/28/87)	182,008	— 2,814	+21,112

Financial Markets

	Friday 11/6/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.85%	+ .45	+ .41
180-Day Bills †	6.41	+ .25	+ .78
Longest Bills †	6.87	+ .16	+ 1.06
Recent Issues:			
$7\frac{7}{8}$s 10/31/89	7.58	+ .05	
$9\frac{1}{8}$s 9/30/91	8.15	— .01	
$8\frac{7}{8}$s 11/15/97 (When Issued)	8.77	NA	
$8\frac{7}{8}$s 8/15/17	8.85	— .18	
Municipals:			
Bond Buyer—20 Bond Index* (11/5/87)	7.90%	— .53	+ .96
Blue List Total ($ Million)	$ 697	— $170	— $979
30-Day Visible Supply ($ Million)	$2,353	— $ 66	+ $125
Total	$3,050	— $266	— $854
Corporates:			
Moody's Aa Composite (11/5/87)	10.35%	— .20	+ 1.06
30-Day Visible Supply ($ Million)	$3,602	+ $197	— $510
Stocks:			
Dow-Jones Averages:			
Industrials	1,959.05	— 34.48	+ 72.52
Transportation	768.86	+ 11.62	— 76.14
Utilities	188.06	+ 5.51	— 21.75
65 Stocks	731.54	— .69	— 15.11
N.Y.S.E. Composite Index	140.04	— .76	— 1.46
N.Y.S.E. Avg. Daily Vol. for Week (000's)	208,591	— 73,399	+ 50,039

*34% Taxable equivalent 11.97%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/6/87	Week Ago
Overnight	6.50%	6.50%
1 month	6.69	7.00
3 month	7.19	7.56
6 month	7.19	7.56
1 year	7.69	7.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/6/87)	Currency Per U.S. $	Week Ago
Canada	1.3205	1.3195
France	5.6985	5.9075
Germany	1.6806	1.7385
Italy	1243.00	1283.00
Japan	135.55	138.00
Mexico	1670.00	1657.00
Switzerland	1.3819	1.4390
U.K.*	1.7790	1.7125

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (11/6/87) (Adjusted for Inflation)	−1.2%	−6.0%

employment rate, job security has been a growing concern. More and more managerial-level workers are finding out that layoff is no longer a blue-collar term, and that the National Football League is not the only business that can do without its "professional" employees.

Even before the market meltdown, Wall Street firms had planned layoffs and downsizings. From television networks to the automobile industry, the loss of white-collar jobs had already been announced, either through layoffs, attrition or early retirement plans. For those actually dismissed, the process is devastating; but even for those who are still working, such action dampens confidence in the economy. Now, three weeks after Black Monday, a majority of Americans surveyed feel a recession in the next 12 months is at least "somewhat likely," raising the fear of rising unemployment.

This pessimism, coupled with a huge debt burden and smaller pay increases, can only lead to a cutback in consumer spending. And with the final low point for stock prices still anyone's guess, a drop-off in retail sales during the Holiday season would appear to be a safe bet. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/4/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	223.742	– 6.620	+26.018
Loans to Depository Inst.	.603	– .148	– .479
Float	.479	– .129	– .093
Total Reserve Bank Credit	241.838	– 6.771	+25.632
Treasury Deposits with Federal Reserve Banks	7.367	– 6.455	+ 4.448
Currency in Circulation	220.241	+ 1.263	+17.459
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	188.247	+ .091	+24.073
	11/4/87		
Member Banks Reserves:			
Total Reserves Held	58.708	+ .651	+ 6.219
Excess (Deficiency)	1.751	+ .741	+ .937
Net Free Reserves	1.464	+ .979	+ 1.073
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (10/26/87)	768.5	+ 6.5‡	+ 8.4‡
M2 (September '87)	2,874.5	+ 4.6	+ 5.0
M3 (September '87)	3,622.3	+ 5.1	+ 5.8
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/6/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.78%	6.21%	6.47%
* Federal Agencies	6.60	6.77	6.95
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.57	8.18	8.64
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.05	7.08	7.55

‡Finance Company Paper—Prime		‡Bankers' Acceptances	
5- 14 days	6.25%	Dec.	6.66%
15- 29 days	6.40	Jan.	6.99
30- 59 days	6.60	Feb.	7.00
60- 89 days	6.88	Mar.	7.00
90-179 days	6.88	Apr.	7.00
180-239 days	6.88	May	7.01
240-270 days	6.88		

‡Industrial Paper—Prime			
30- 89 days	6.88%	†Federal Funds	
90-120 days	6.98	Effective Rate	6.70%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,512	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,831	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	3.8	2.5	1.4
Change in Consumer Prices*	Sep '87	2.4% (1)	6.0% (1)	3.6%
Change in Producer Prices*	Sep '87	3.6%	0.0%	3.6%
Civilian Employment (Thousands of Persons) †	Oct '87n	113,187	112,772	110,192
Unemployment as % of Civilian Labor Force †	Oct '87n	6.0%	5.9%	6.9%
Personal Income*	Sep '87n	$ 3,784	$ 3,758r	$ 3,568
Leading Indicators Composite Index (1967=100) †	Sep '87n	192.5	192.6	179.9
Industrial Production Index (1977=100) †	Sep '87	131.2	131.0	124.5
Net Change in Consumer Installment Credit †	Sep '87n	$ 6.06	$ 5.01r	$ 7.61
U.S. Merchandise Trade Balance	Aug '87	–$ 15.68	–$ 16.47	–$ 14.03
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units) *	Sep '87	1,669	1,598	1,689
New Construction Expenditures*	Sep '87n	$ 406.3	$ 400.1r	$ 400.1
Total Business Inventories †	Aug '87	$ 678.8	$ 677.7	$ 655.6
Total Business Sales †	Aug '87	$ 458.7	$ 452.7	$ 423.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Performance

Give your toughest challenge to CIT—the winning team in business credit.

The CIT Group/Business Credit is at home in the world's most demanding, most sophisticated financial market—Metropolitan New York.

We're able to bring you a very special combination of technical expertise, financial resources and a winning attitude. Our know-how reaches across the entire credit spectrum—from working capital loans to acquisition financing. As part of Manufacturers Hanover, the resources we can access are virtually limitless. And our people are a different breed: responsive, bright and dedicated. We are committed to you and your success.

Challenge us. See what a winning team is made of.

Call David Kaplowitz, V.P., Region Marketing Manager.

The CIT Group/Business Credit
270 Park Avenue
New York, NY 10017
(212) 286-2761.

THE CIT GROUP Business Credit

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

3/18/88 BS350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 24

Monday, November 23, 1987

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

The Louvre Accord Collapses

The recent renewed weakness of the dollar raises new questions about the Louvre Agreement and its implied currency target zones. The February 22, 1987, Louvre Currency Accord gave the foreign exchange markets a period of unaccustomed stability. The agreement among the major industrial nations was prompted by concerns that any further decline in the dollar would have a detrimental impact upon the world economy. Thus, stabilizing the dollar became a paramount priority. In order to achieve this objective, the U.S. pledged to renew its efforts to cut its huge Federal budget deficit, while Japan and Germany pledged to take steps to stimulate their economies. Realizing that such policies would take time to work, central banks vowed to intervene in the interim whenever it became necessary to promote exchange rate stability.

The agreement did succeed in dampening exchange rate volatility for most of the year, keeping the dollar roughly in a narrow trading range of 1.80-1.90 Deutschemarks and 140-150 yen. In part, an unprecedented $90-$100 billion in central bank intervention during this period helped to explain this development, as did statements by world financial leaders emphasizing cooperation and coordination of monetary and fiscal policies. However, in late October, the agreement began to unravel in acrimonious bitterness among the participants, particularly Germany and the U.S. As a result, the dollar once again renewed its descent, sinking to record low levels against the mark, yen, Swiss franc and Dutch guilder, while sliding to a five-year low against the U.K. pound sterling.

It was evident from the outset that the Louvre Agreement could only buy time until the necessary macroeconomic policies were put in place to rectify the imbalances overhanging the world economy, especially the large U.S. trade deficit, which will reach $170 billion this year, and the enormous trade surpluses of Japan and Germany. In this regard, it was essential that the U.S. stop living *beyond* its means by cutting the Federal budget deficit, while Germany and Japan stopped living *below* their potentials by stimulating their domestic economies. Unfortunately, few steps were taken to rectify these imbalances.

A Need For Global Coordination

Instead, the U.S. again put off efforts to reduce effectively its sizable budget deficit while Germany's anti-inflation fixation prevented it from stimulating domestic demand. Although Japan did take steps to expand domestic demand, its measures proved somewhat tentative with no concrete action taken to reduce its high food and real estate costs, nor to cut taxes substantially. Meanwhile, with money supply growth exceeding target levels as a result of massive intervention to support the dollar, both Japan and Germany began to tighten their monetary policies to the chagrin of the Administration which had hoped that overseas interest rates would drop in order to stimulate world economic activity.

It is not surprising, therefore, that the Louvre Accord collapsed as once again the major countries refused to take the politically difficult steps to rectify their budget and trade imbalances. Two catalysts in this respect speeded up the demise of the Louvre Agreement. One was the August U.S. trade deficit, which although narrower than July's, showed an unacceptably large $15.7 billion shortfall, the third largest monthly red-ink total in 1987 and 12 percent above year-ago levels. The second, and perhaps key, catalyst was U.S. Treasury Secretary Baker's warning to the Germans that unless they ceased tightening their monetary policy, the dollar would be allowed to fall. The foreign exchange markets took this statement as a clear sell signal and proceeded to dump dollars en masse, sending the dollar crashing below the psychologically significant 1.70 mark and 140 yen levels.

Copyright 1987 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

Despite pronouncements to the contrary by major world finance leaders, it seems that the Louvre Accord has suffered a severe setback and, if nothing else, it will be difficult to re-establish the former harmony. What is more, it would appear that the U.S. once again views a cheaper dollar as the principal mechanism for correcting the huge trade deficit. This, though, is a flawed policy. Exchange rate movements by themselves cannot substantially reduce trade imbalances without corresponding and complementary changes in savings, investment and fiscal policy. This has not been done in the U.S., nor have the Europeans and Japanese helped matters since they have refused to stimulate their economies substantially.

More Is Needed To Reduce Trade Deficit

It should be evident to the U.S. Administration that dollar devaluation is not the only answer. The trade deficit has widened—not diminished—since the dollar reached its peak in February 1985. From a shortfall of $31.37 billion in the first quarter of 1985, the deficit soared to $46.23 billion in the third quarter of 1987. Although in volume

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/4/87)	172,576	+ 861	+ 18,458
New York City (11/11/87)	38,397	– 51	+ 4,375
Commercial Paper (11/11/87)	356,066	– 4,255	+ 25,243

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/4/87)	276,812	+ 1,683	+12,371
New York City (11/11/87)	58,563	– 619	– 2,274

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/4/87)	810,260	– 2,758	+55,463
New York City (11/11/87)	176,827	– 1,809	+11,472

Financial Markets

	Friday 11/20/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.83%	– .24	+ .35
180-Day Bills†	6.51	– .17	+ .93
Longest Bills†	6.57	– .42	+ .84
Recent Issues:			
$7\frac{7}{8}$s 11/30/87 (When Issued)	7.61	NA	
$9\frac{1}{8}$s 9/30/91	8.31	+ .15	
$8\frac{7}{8}$s 11/15/97	8.78	– .03	
$8\frac{7}{8}$s 8/15/17	8.87	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (11/19/87)	7.91%	– .12	+ 1.13
Blue List Total ($ Million)	$1,065	+ $160	–$ 746
30-Day Visible Supply ($ Million)	$1,545	– $847	–$2,614
Total	$2,610	– $688	–$3,360
Corporates:			
Moody's Aa Composite (11/19/87)	10.23%	+ .01	+ 1.09
30-Day Visible Supply ($ Million)	$2,155	– $647	–$ 555
Stocks:			
Dow-Jones Averages:			
Industrials	1,913.63	– 21.38	+ 20.07
Transportation	726.29	– 19.28	– 112.59
Utilities	180.18	– 1.78	– 31.30
65 Stocks	706.23	– 10.55	– 41.36
N.Y.S.E. Composite Index	135.56	– 2.04	– 5.38
N.Y.S.E. Avg. Daily Vol. for Week (000's)	163,613	– 11,197	– 8,847

*34% Taxable equivalent 11.98%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/20/87	Week Ago
Overnight	6.56%	6.69%
1 month	6.81	6.75
3 month	7.38	7.31
6 month	7.38	7.38
1 year	7.81	7.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.93%	8.92%
Long Term (10 yrs.)	9.78	9.72

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/20/87)	Currency Per U.S. $	Week Ago
Canada	1.3105	1.3184
France	5.6540	5.7500
Germany	1.6645	1.6941
Italy	1226.00	1249.00
Japan	134.50	136.05
Mexico	1710.20	1707.00
Switzerland	1.3665	1.3950
U.K.*	1.7960	1.7610

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/20/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.2%	–5.5%

terms the trade deficit has finally begun to improve, this development is being masked by the value impact of a falling dollar. Thus, the dollar value of imports in September was still nearly nine percent above year-ago levels. Meanwhile, import prices in the third quarter were 15.5 percent above their corresponding 1986 levels. The recent renewed plunge in the dollar will only further exacerbate this trend, not slow it down.

Today's poor world economic climate represents in part the futility of totally relying upon exchange rate movements to rectify imbalances among the major trading countries. The dollar has moved sharply lower, yet the U.S. trade deficit has widened. It seems, therefore, that one solution to the U.S. trade deficit lies in a recession. At present, U.S. consumption is exceeding production; the U.S. is simply saving too little and spending too much. Domestic demand must be curbed, and the October 19 stock market crash was a clear warning of an impending recession. It could be needlessly steep if the major governments of the industrial world continue to postpone tackling their deep-seated problems. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	11/18/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	223.409	+ 1.878	+21.822
Loans to Depository Ins*	.605	+ .089	− .498
Float	1.572	+ .992	+ .156
Total Reserve Bank Credit	241.614	+ 1.929	+20.954
Treasury Deposits with			
Federal Reserve Banks	3.836	− .122	+ .140
Currency in Circulation	223.525	+ 1.282	+17.977
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	192.067	+ 3.297	+27.549
	11/18/87		
Member Bank Reserves:			
Total Reserves Held	58.098	− .463	+ 3.842
Excess (Deficiency)	.485	− 1.032	− .431
Net Free Reserves	.258	− .972	− .284
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (11/9/87)	759.1	+ 6.9‡	+ 8.1‡
M2 (October '87)	2,890.2	+ 6.0	+ 4.7
M3 (October '87)	3,645.2	+ 6.8	+ 5.9
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/20/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.70%	6.15%	6.43%
* Federal Agencies	6.72	6.85	7.00
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.58	8.18	8.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.20	7.35	7.70

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.50%	Dec.	6.82%
15- 29 days	6.65	Jan.	7.17
30- 59 days	6.67	Feb.	7.17
60- 89 days	6.67	Mar.	7.17
90-179 days	6.67	Apr.	7.17
180-239 days	6.50	May	7.17
240-270 days	6.50		

‡Industrial Paper—Prime			
30- 89 days	6.85%	†Federal Funds	
90-120 days	7.10	Effective Rate	6.75%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,512	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,831	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	3.8	2.5	1.4
Change in Consumer Prices*	Oct '87n	4.8% (1)	2.4% (1)	2.4%
Change in Producer Prices*	Oct '87n	− 2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons)†	Oct '87	113,187	112,772	110,192
Unemployment as % of Civilian Labor Force†	Oct '87	6.0%	5.9%	6.9%
Personal Income*	Sep '87	$ 3,784	$ 3,758	$ 3,568
Leading Indicators Composite Index (1967=100)†	Sep '87	192.5	192.6	179.9
Industrial Production Index (1977=100) †	Oct '87n	131.7	130.9r	125.3
Net Change in Consumer Installment Credit †	Sep '87	$ 6.06	$ 5.01	$ 7.61
U.S. Merchandise Trade Balance	Sep '87n	−$ 14.08	−$ 15.68	−$ 12.56
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Oct '87n	1,513	1,648r	1,657
New Construction Expenditures*	Sep '87	$ 406.3	$ 400.1	$ 400.1
Total Business Inventories †	Sep '87n	$ 682.4	$ 678.4r	$ 653.7r
Total Business Sales †	Sep '87n	$ 462.1	$ 457.7r	$ 437.2r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Financial Engineering

Investment Banking Performance

CalFed Inc.

[illegible] wap

MBank
Momentum Banks

GRIDs™
Group Insured Deposits

Due from 1988 to 1992 at fixed and variable rates.

Republic National Bank of New York
Hong Kong Branch

HK$100,000,000
Three Year Fixed Rate Certificate of Deposit

The Bank of New England

DM50,000,000
Five Year Cross Currency Swap

Reliance Premium Credit Corporation

$160,000,000
Note Issuance Facility

Cananwill, Inc.

Reliance Group Holdings, Inc.

Fireman's Fund Mortgage Corporation

$450,000,000
Multi-Option Facility

The Investment Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

Congressional Info. Service
ATT: SRI
4520 E-W Highway
Bethesda, MD 120814

Financial Digest

NEW YORK, NY

12/14/87 85350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 25

Monday, December 7, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

America Can No Longer Ignore The Federal Deficit

The recriminations and hand-wringing going on in Washington these past few weeks must amaze any person who has to live within a budget. Members of Congress and the Administration are finding out what most Americans have known for a long time: Piling up debt is a dangerous practice. At some point, the payment comes due.

The problem of the deficit had been debated and, more or less, dismissed during most of the 1980s. But when the stock market plunged on October 19, much of the blame was placed on the Federal government's inability to rein in its deficit spending. In a knee-jerk reaction to such accusations, Congress and the Administration held a domestic summit in an effort to reach some decisions on reducing Washington's budget deficit.

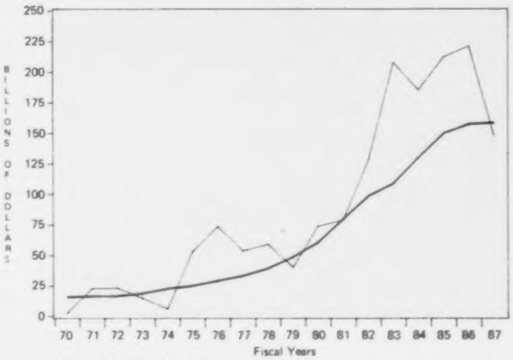
After four weeks of debate and compromise, the summiteers avoided making any drastic decisions. Instead, the politicians emerged from deliberations with a proposal that would cut the deficit by $30 billion in fiscal year 1988 and $46 billion more in the next fiscal year. Rather than tackling any major issues, such as entitlement programs, the accord was, perhaps, the bare minimum that could have been presented without further disrupting the financial markets. Indeed, the reception on Wall Street was lukewarm at best. The stock market rose only slightly on the summit news, while the bond markets remained lackluster.

During their meetings, Congressional leaders and the Administration had only two means with which to battle their deficit addiction. One was to raise taxes. Raising taxes, however, is a curse on a politician's re-election campaign. So, although the budget accord agreed to increase taxes by $9 billion in FY 1988, the summit members were reluctant to name specific sources for these added revenues, since no group is likely to volunteer to shoulder the extra tax burden. Moreover, any increase in income or excise taxes has been ruled out by the Administration, so Congress will be hard-pressed to identify definite tax increases.

The Need To Reduce Spending

The other option was to reduce spending. Under the summit proposal, $11.6 billion will be cut away from the Federal budget this year. Defense spending would be pared by $5.3 billion—an important achievement for the summit since the Administration had previously refused to reduce the Pentagon's budget. Other cuts would come from Medicare, farm price supports and student loan programs.

TOTAL INTEREST PAID BY THE FEDERAL GOVERNMENT (THICK) VS. FEDERAL BUDGET DEFICIT (THIN)



Source: U.S. Department of the Treasury

Some critics, however, have noted that Washington would have been better off doing nothing. That would have allowed the automatic spending cuts of the Gramm-Rudman Act to kick in. And while these cuts would represent "real" reductions in spending, they nevertheless are less politically discriminating than those in the budget compromise: Defense spending would have dropped by 10.5 percent and other programs, by 8.5 percent.

One growing problem is that Congress is running out of room in which to cut spending. Politicians are wary of tampering with entitlement programs such as Social Security, even though the Federal government spends about as much on Social Security and Medicare as it does on defense. Even more important: The heavy debt accumulation of the recent past has created a huge interest payment for the Federal government. As the chart shows, interest expense has risen in

Copyright 1987, Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

tandem with the budget deficit. Indeed, in FY 1987 total interest paid outpaced the Federal deficit by $10 billion. As long as the red-ink accumulates in Washington, the interest bill will garner a larger share of Federal outlays. Already in the first half of 1987, net interest paid totaled over $70 billion, an amount equal to what the government spent on agriculture, energy, the environment, housing, transportation, health and veterans benefits combined!

Of course, Congress has another alternative when dealing with the budget. That is to continue its profligate ways: Spend more than is taken in and borrow the difference. However, America is quickly finding out the errors of this approach. Much has already been made of the growing reliance of the Federal government on foreigners to finance the budget deficit. Equally significant is the "crowding out" of other debtors by the public sector in the financial markets. In the late 1970s, total government deficits accounted for only ten percent of net private domestic savings; by 1986, the federal deficit alone used up 90 percent of net private savings. This had led to higher interest rates than would otherwise ensue, and the inability of some worthy private

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/87)	172,635	+ 30	+ 18,537
New York City (11/25/87)	38,016	– 345	+ 3,889
Commercial Paper (11/25/87)	359,870	+ 3,228	+ 33,399

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/87)	276,472	+ 189	+10,251
New York City (11/25/87)	56,963	– 878	– 4,459

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/87)	806,516	– 2,777	+43,325
New York City (11/25/87)	171,973	– 1,364	– 834

Financial Markets

	Friday 12/4/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.54%	– .23	– .02
180-Day Bills†	6.43	– .07	+ .79
Longest Bills†	6.95	– .16	+ 1.18
Recent Issues:			
$7^{3}/_{4}$s 11/30/89	7.65	– .20	
$9^{1}/_{8}$s 9/30/91	8.17	– .22	
$8^{7}/_{8}$s 11/15/97	8.90	– .20	
$8^{7}/_{8}$s 8/15/17	9.07	– .11	
Municipals:			
Bond Buyer–20 Bond Index* (12/3/87)	7.90%	– .06	+ 1.13
Blue List Total ($ Million)	$1,151	+ $ 30	–$1,212
30-Day Visible Supply ($ Million)	$1,867	+ $ 127	–$2,120
Total	$3,018	+ $ 157	–$3,332
Corporates:			
Moody's Aa Composite (12/3/87)	10.29%	+ .04	+ 1.27
30-Day Visible Supply ($ Million)	$5,788	+ $3,925	+$1,923
Stocks:			
Dow-Jones Averages:			
Industrials	1,766.74	– 143.74	– 158.04
Transportation	661.00	– 67.43	– 199.87
Utilities	173.13	– 7.05	– 38.81
65 Stocks	653.73	– 52.35	– 106.55
N.Y.S.E. Composite Index	125.91	– 9.25	– 17.78
N.Y.S.E. Avg. Daily Vol. for Week (000's)	191,543	+ 49,335	+ 18,982

*34% Taxable equivalent 11.97%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/4/87	Week Ago
Overnight	6.69%	6.50%
1 month	7.94	7.88
3 month	7.69	7.63
6 month	7.69	7.63
1 year	7.94	7.94
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.95%	8.81%
Long Term (10 yrs.)	9.87	9.66

FOREIGN EXCHANGE SPOT RATES New York Opening (12/4/87)	Currency Per U.S. $	Week Ago
Canada	1.3141	1.3096
France	5.6250	5.6365
Germany	1.6545	1.6570
Italy	1220.50	1223.50
Japan	132.10	133.77
Mexico	1769.20	1731.80
Switzerland	1.3525	1.3600
U.K.*	1.8135	1.8075

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/4/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.9%	–4.3%

projects to obtain funds from our credit markets.

There Is No Free Lunch

When the final budget plan reaches Congress, each party will be sure to hold the other responsible for the deficit problem. However, the blame extends beyond the halls and chambers of the Capitol. Americans have let the Federal government become everything to all people: the subsidizer of farmers, the payer of medical bills, the lender of last resort. This omnipotence has not come without a price, but, for too long, Americans have ignored the question of who will pick up the tab. And now this country has come face to face with a stark and dismal reality: There is no free lunch.

Unfortunately, eating *gratis* has become a national pasttime. It should be remembered that Washington's red-ink only mirrors the wishes of the electorate who demand more from their government than they are willing to pay for in the form of taxes. The dangers of living beyond our means are becoming more apparent. The shakiness of the global stock markets is just one signal that lunch is almost over. The time has come to decide how we are going to pay the check. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/2/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	226.743	+ 4.088	+23.045
Loans to Depository Inst.	.684	+ .003	+ .103
Float	.686	− .011	− .604
Total Reserve Bank Credit	243.410	+ 4.307	+21.972
Treasury Deposits with Federal Reserve Banks	3.403	+ .078	+ .797
Currency in Circulation	225.013	+ 1.351	+17.875
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	193.393	+ 1.775	+27.497
	12/2/87		
Member Bank Reserves:			
Total Reserves Held	57.962	− .159	+ 3.310
Excess (Deficiency)	1.223	+ .727	+ .093
Net Free Reserves	1.005	+ .736	+ .117

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (11/23/87)	759.5	+ 4.4‡	+ 7.0‡
M2 (October '87)	2,893.9	+ 6.4	+ 4.8
M3 (October '87)	3,650.8	+ 7.3	+ 6.0
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/4/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.34%	6.13%	6.52%
* Federal Agencies	7.00	7.10	7.12
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.58	8.18	8.64
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.50	7.50	7.80

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.70%	Jan.	7.71%
15- 29 days	6.70	Feb.	7.55
30- 59 days	7.50	Mar.	7.46
60- 89 days	7.38	Apr.	7.45
90-179 days	7.25	May	7.48
180-239 days	7.25	Jun.	7.47
240-270 days	7.25		

‡Industrial Paper—Prime			
30- 89 days	7.40%	†Federal Funds	
90-120 days	7.35	Effective Rate	6.85%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,521 r	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,833 r	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	4.1 r	2.5	1.4
Change in Consumer Prices*	Oct '87	4.8% (1)	2.4% (1)	2.4%
Change in Producer Prices*	Oct '87	− 2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons)†	Nov '87n	113,500	113,187	110,432
Unemployment as % of Civilian Labor Force†	Nov '87n	5.9%	6.0%	6.9%
Personal Income*	Oct '87n	$ 3,841	$ 3,777	$ 3,578
Leading Indicators Composite Index (1967=100)†	Oct '87n	192.4	192.7	181.2
Industrial Production Index (1977=100) †	Oct '87	131.7	130.9	125.3
Net Change in Consumer Installment Credit †	Sep '87	$ 6.06	$ 5.01	$ 7.61
U.S. Merchandise Trade Balance	Sep '87	−$ 14.08	−$ 15.68	−$ 12.56
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Oct '87	1,513	1,648	1,657
New Construction Expenditures*	Oct '87n	$ 407.9	$ 409.8r	$ 394.9
Total Business Inventories †	Sep '87	$ 682.4	$ 678.4	$ 653.7
Total Business Sales †	Sep '87	$ 462.1	$ 457.7	$ 437.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Innovation

There's indexation.

And then there's innovative indexation.

Innovation applied to indexation. It's what sets us apart. And what helps us to achieve your fund's goals with cost-efficiency and predictability.

Manufacturers Hanover Investment Corporation, a leading force in innovative asset management, can track any major fixed-income or equity index, domestic or international.

Or, we can custom make an index specifically for your needs.

To learn more about our specialized indexation and how it helps lower tracking costs, please contact Robert J. Morello, Senior Vice President, (212) 957-0634.

The Investment Management Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

12/30/87 B5350-2

MANUFACTURERS
HANOVER

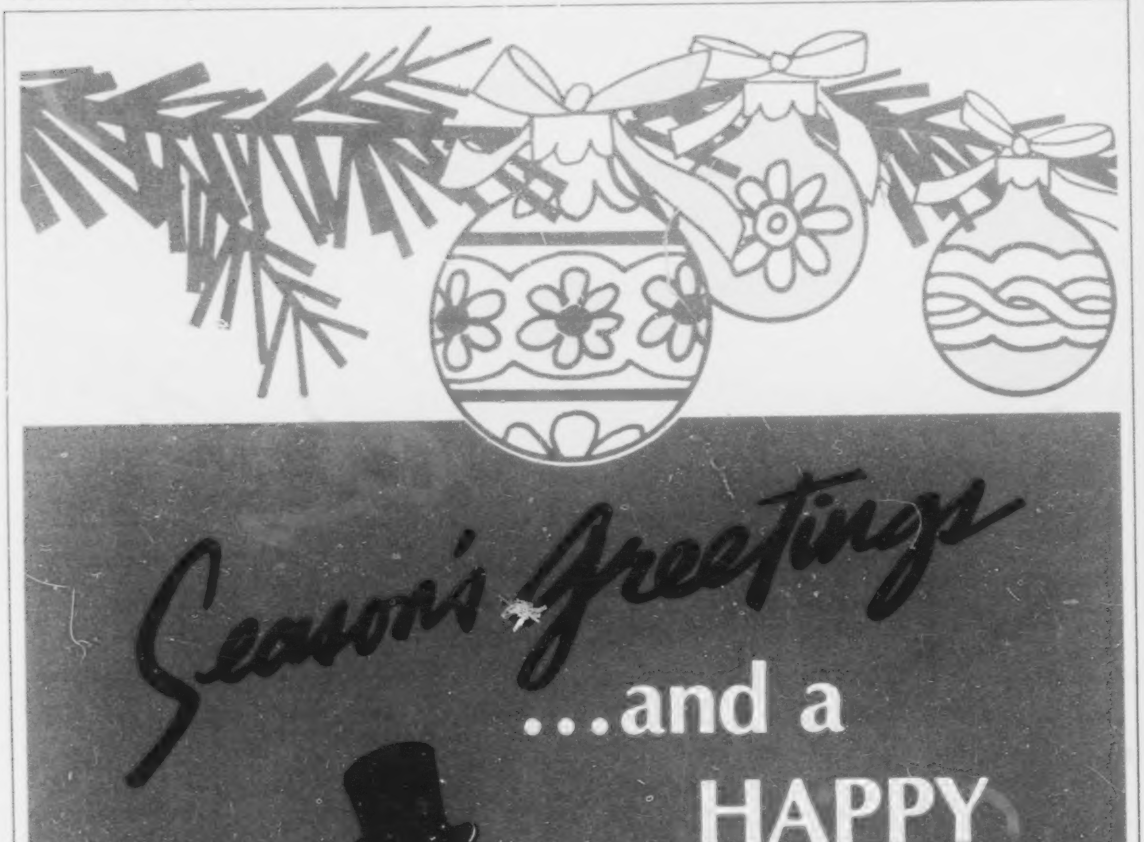
Financial Digest

Volume XXIV, Number 26

Monday, December 21, 1987

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270


Season's Greetings
...and a
HAPPY
NEW
YEAR
to all!
1988

Copyright 1987 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

Srecna Nova Godina

HAPPY N

לשנה טובה תכתבו

Selamat Tahun Baru

Buon Anno Nuovo

Próspe

恭喜發財新年快樂

Fröhliches Neues Jahr

Bonne A

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest * Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/2/87)	171,118	– 1,748	+ 18,119
New York City (12/9/87)	37,761	– 15	+ 3,532
Commercial Paper (12/9/87)	355,948	+ 1,849	+ 30,960

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/2/87)	276,647	+ 1,066	+ 7,754
New York City (12/9/87)	57,344	– 118	– 4,420

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/2/87)	805,667	+ 2,640	+37,007
New York City (12/9/87)	171,539	– 1,432	+ 2,750

Financial Markets

	Friday 12/18/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.05%	+ .01	+ .32
180-Day Bills†	6.70	– .09	+ .89
Longest Bills†	7.16	– .09	+ 1.29
Recent Issues:			
7⅞s 11/30/89	7.76	– .20	
9⅛s 9/30/91	8.25	– .24	
8⅞s 11/15/97	8.90	– .30	
8⅞s 8/15/17	[illegible]	– .45	
Municipals:			
Bond Buyer (20 Bond Index) (12/17/87)	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Corporates:			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Stocks:			
Dow Jones Averages:			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
N.Y.S.E. Composite Index	[illegible]	[illegible]	[illegible]
N.Y.S.E. Avg. Daily Vol. for Week (000's)	[illegible]	[illegible]	[illegible]

[illegible]

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/18/87	Week Ago
Overnight	6.44%	6.56%
1 month	8.19	8.88
3 month	7.94	8.13
6 month	7.94	8.12
1 year	8.11	8.31

EURODOLLAR BONDS Average Yield	Friday 12/18/87	Week Ago
Medium Term (5 yrs.)	[illegible]	[illegible]
Long Term (10 yrs.)	[illegible]	10.12

FOREIGN EXCHANGE SPOT RATES New York Opening (12/18/87)	Currency Per U.S. $	Week Ago
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
U.K.*	[illegible]	[illegible]

*[illegible]

MH TRADE WEIGHTED DOLLAR (12/18/87)	Change Since Week Ago	Change Since 2/27/85
(Adjusted for Inflation)	[illegible]	[illegible]

EW YEAR 賀正 Manigong Bagong Taon

สวัสดีปีใหม่

كل عام وانتم بخير

o Año Nuevo 새해복많이받으십시오 Καλή Χρονιά

nnée Gott Nytt Ar Próspero Ano Novo

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/16/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	226.564	− .793	+19.940
Loans to Depository Inst.	.875	+ .121	+ .231
Float	1.992	+ 1.030	+ .898
Total Reserve Bank Credit	245.108	+ .263	+20.632
Treasury Deposits with Federal Reserve Banks	4.817	+ 1.025	+ 1.293
Currency in Circulation	226.447	+ .729	+18.095
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	198.508	+ 3.471	+33.744
	12/16/87		
Member Bank Reserves			
Total Reserves Held	58.986	+ 1.069	+ 3.061
Excess (Deficiency)	1.192	− .035	+ .452
Net Free Reserves	1.030	+ .021	+ .494

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (12/7/87)	754.4	+ 2.6‡	+ 5.4‡
M2 (November '87)	2,892.0	+ 4.1	+ 4.2
M3 (November '87)	3,657.5	+ 6.0	+ 5.6
Domestic Nonfinancial Debt (3rd Q'87)†	8,139.1	+ 7.6	+ 10.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/18/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.94%	6.40%	6.71%
* Federal Agencies	7.20	7.30	7.30
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.95	8.48	8.71
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.80	7.80	7.95

‡Finance Company Paper—Prime	
5- 14 days	6.50%
15- 29 days	8.05
30- 59 days	7.90
60- 89 days	7.40
90-179 days	7.40
180-239 days	7.25
240-270 days	7.25

‡* Bankers' Acceptances	
Jan.	8.00%
Feb.	7.65
Mar.	7.55
Apr.	7.50
May	7.45
Jun.	7.38

‡Industrial Paper—Prime	
30- 89 days	8.00%
90-120 days	7.80

†Federal Funds Effective Rate 6.70%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,524	$ 4,446	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,836 r	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	4.3r	2.5	1.4
Change in Consumer Prices†	Nov '87r	3.6%	4.2%	2.4%
Change in Producer Prices†	Nov '87r	0.0%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Nov '87	112,500	113,191	110,432
Unemployment as % of Civilian Labor Force†	Nov '87	5.9%	6.0%	6.9%
Personal Income*	Nov '87r	$ 3,834	$ 3,851r	$ 3,590
Leading Indicators Composite Index (1967=100)†	Oct '87	192.4	192.7	181.2
Industrial Production Index (1977=100)†	Nov '87r	132.5	132.0r	125.7
Net Change in Consumer Installment Credit†	Oct '87r	$ 2.74	$ 6.42r	$ 5.59
U.S. Merchandise Trade Balance	Oct '87	$ 17.63	$ 14.08	$ 12.06
Plant and Equipment Expenditures*	[illegible]	$427.07(a)	$417.25(a)r	$372.24
Private Housing Starts (Thousands of Units)*	Nov '87r	1,623	1,523r	1,637
New Construction Expenditures*	Oct '87	$ 401.6	$ 409.8	$ 394.8
Total Business Inventories †	Oct '87r	$ 681.9	$ 682.3r	$ 655.6r
Total Business Sales †	Oct '87r	$ 462.2	$ 462.4r	$ 429.2r

* Seasonally adjusted annual rate. †Seasonally adjusted. (n) Newly reported figure. (r) Revised. (a) Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Structured Solutions

Leader in acquisition finance

A recapitalization of
Gencorp Inc
$1,750,000,000
Senior Bank Financing
Manufacturers Hanover Trust Company acted as Agent for the above financing

Nu-Kote International, Inc.
a new corporation formed by
Clayton & Dubilier, Inc.
has acquired
The International Business Forms Division
and
Worldwide Office Supplies Division
of
UNISYS
$48,000,000
Senior Bank Financing
Manufacturers Hanover Trust Company structured and provided financing for the above transaction

Lear Siegler, Inc.
has been acquired by
LS Acquisition Corporation
an affiliate of
Forstmann Little & Co.
$1,400,000,000
Senior Bank Financing
Manufacturers Hanover Trust Company acted as Lead Manager for the above financing

Itel Corporation
has secured permanent financing for the leveraged acquisition of
Anixter Brothers, Inc.
$400,000,000
Senior Bank Financing
Manufacturers Hanover Trust Company structured this transaction and acted as Lead Manager in its syndication

Owens-Illinois, Inc.
has been acquired in a leveraged buyout by
OII Holdings Corporation
a new corporation formed by
Kohlberg Kravis Roberts & Co.
$3,600,000,000
Senior Bank Financing
Manufacturers Hanover Trust Company acted as Co-Manager for the above financing

Campeau Acquisition Corp.
has acquired
Allied Stores Corporation
$3,281,200,000
Senior Bank Financing
Manufacturers Hanover Trust Company acted as Agent in the above transaction

The Investment Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5983 C 939 SRI
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
4520 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

1/12/88 B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 1

Monday, January 4, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Stock Market Crash Hasn't Knocked Out Inflation

There has been a great deal of speculation as to whether or not the stock market crash would dampen inflation concerns. A quick look at the changes in consumer and producer prices in November seems to suggest that inflation is slowing, but a deeper look at the components of the various price indexes and some of the underlying forces at work provides a different picture.

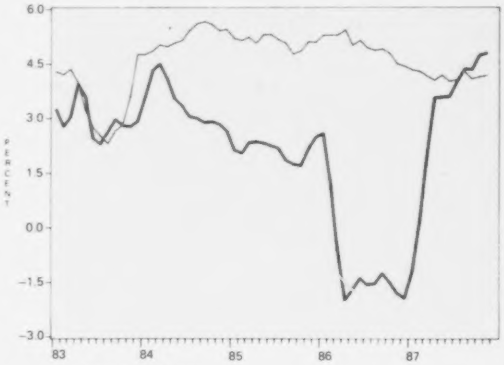
The Consumer Price Index (CPI) rose 0.3 percent in November, month over month. Although this was somewhat smaller than October's gain, over the past 12 months, the CPI has jumped 4.4 percent—the fastest 12-month increase in almost three years and four times the 12-month gain registered in December 1986.

The Producer Price Index (PPI) for finished goods, which mainly covers items made by U.S. manufacturers, and is one stop short of the retail level, remained unchanged in November, month over month. At the moment, the index stands only 2.6 percent above year-ago levels, compared with a 3.4 percent year-over-year rise back in July. While this is encouraging, there are signs of inflationary pressures in the industrial materials sector where factories are working at nearly full capacity—especially in nondurable materials factories where over 88 percent of capacity is being used.

The recent runup in prices of industrial goods can be seen in the PPI for intermediate materials excluding food and energy. This intermediate index, which measures the change in the prices of items before they reach the finished-goods stage, rose a hefty 0.5 percent in November, month over month; in the first two months of the fourth quarter it is up at an annual rate of 9.6 percent compared with 5.0 percent, 3.5 percent and 2.7 percent increases in the third, second and first quarters of 1987, respectively. Historically, price increases for intermediate goods have worked through to finished-product prices within six to 12 months, indicating that larger increases may be in store for finished goods.

Higher Imported Goods Prices

The falling dollar, which is down about 50 percent from its February 1985 peaks against the Japanese yen and German mark, is also contributing to inflationary pressures by pushing up prices of imported goods. Over the past year, prices of imported items have risen by about 8½ percent, compared with a *drop* of about seven percent in the three quarters before that. These higher import costs have enabled many U.S. producers to boost prices. In the auto industry, for example, exchange rate adjustments have pushed foreign auto makers to raise tabs 25 percent over the past two years. And, the Big Three domestic car makers took advantage of this and have charged an estimated 10 percent more on 1988 models.


12 MONTH PERCENT CHANGE IN CONSUMER PRICE INDEX: GOODS (THICK) VS. SERVICES (THIN)

Source: Bureau of Labor Statistics

One interesting effect of higher-priced imports has been a switch in the inflation trends of the two broad categories of consumer purchases covered by the CPI—goods (foods, clothing, appliances, cars, etc.) and services (medical care, transportation, housing and energy services). Although consumer spending between these two groups is divided almost evenly, the inflation trends in these categories have been strikingly different.

Since late 1983, the 12-month change in services prices had been running much higher than that for goods prices (see chart). In fact, at the beginning of 1987, services

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

inflation outran goods inflation by 5½ percentage points. Now, goods inflation is higher than services inflation, and this is with the rate of services inflation on a new upward trend. Besides the rise in oil prices, the main reason for this change is the removal of the constraint lower-priced imports had placed on domestic goods prices. What is more, the change occurred quickly: In January of last year, the 12-month change in goods prices was a *decline* of 1.2 percent, by May 1987 it was a plus 3½ percent—and during the 12 months ending in November, prices of goods jumped nearly five percent.

Larger Wage Increases

One positive factor in the inflation outlook is a slowdown in the rate of rise in unit labor costs. Since labor costs account for about two-thirds of all business expenses, rising labor costs generally translate quickly into higher wholesale and retail prices. Unit labor costs rose only 0.2 percent at an annual rate in the third quarter of 1987, after posting an average gain of about 2½ percent in the previous five quarters. However, unit labor costs have not been held down by a slowing in the rate of rise of wages. The small increase in unit labor costs was the combination of a hefty 3.4

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/16/87)	172,070	− 194	+ 19,155
New York City (12/16/87)	37,476	− 285	+ 3,383
Commercial Paper (12/16/87)	358,286	+ 2,342	+ 32,724

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/16/87)	277,461	+ 1,633	+ 5,993
New York City (12/16/87)	58,214	+ 1,110	− 4,109

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/16/87)	806,224	+ 3,446	+33,061
New York City (12/16/87)	171,566	+ 308	+ 1,932

Financial Markets

	Wednesday 12/30/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.87%	− .02	+ .07
180-Day Bills†	6.46	− .25	+ .62
Longest Bills†	7.07	− .08	+ 1.15
Recent Issues:			
$7\frac{7}{8}$s 12/31/89 (When Issued)	7.70	− .11	
$8\frac{1}{4}$s 12/31/91 (When Issued)	8.19	− .11	
$8\frac{7}{8}$s 11/15/97	8.75	− .08	
$8\frac{7}{8}$s 8/15/17	8.88	− .04	
Municipals:			
Bond Buyer—20 Bond Index* (12/30/87)	7.86%	− .09	+ .94
Blue List Total ($ Million)	$1,143	− $ 63	−$1,455
30-Day Visible Supply ($ Million)	$ 766	+ $189	−$ 288
Total	$1,909	+ $126	−$1,743
Corporates:			
Moody's Aa Composite (12/29/87)	10.26%	− .01	+ 1.26
30-Day Visible Supply ($ Million)	$6,108	− $115	+$2,875
Stocks:			
Dow-Jones Averages:			
Industrials	1,950.10	− 49.57	+ 50.07
Transportation	754.43	− 15.86	− 50.92
Utilities	174.25	− 1.54	− 31.42
65 Stocks	717.61	− 15.66	− 19.47
N.Y.S.E. Composite Index	138.52	− 2.33	− .13
N.Y.S.E. Avg. Daily Vol. for Week (000's)	130,820	− 35,908	+ 17,830

*34% Taxable equivalent 11.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Wednesday 12/30/87	Week Ago
Overnight	6.69%	6.25%
1 month	7.06	7.94
3 month	7.31	7.81
6 month	7.38	7.81
1 year	7.75	8.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/30/87)	Currency Per U.S. $	Week Ago
Canada	1.3052	1.3070
France	5.4100	5.5225
Germany	1.5967	1.6380
Italy	1179.00	1206.75
Japan	123.50	126.95
Mexico	2204.00	2204.00
Switzerland	1.2930	1.3325
U.K.*	1.8575	1.8210

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/30/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	−0.7%	−3.8%

percent jump in productivity offsetting a sizeable 3.7 percent increase in compensation per hour, which was almost four times the increase in wages in the first quarter of 1987. If productivity gains stall, wage increases of this size will translate into a sharp jump in unit labor costs.

Another seemingly positive factor had been the downward trend in raw industrial commodities prices, as tracked by the Commodity Research Bureau (CRB) in the wake of the stock market crash. But, since early December, this trend has reversed. Also, prices of these items are still running well above their 1986 low point and are, in fact, still about 18 percent higher than a year ago.

The recent drop in oil prices is another reason for reduced inflation expectations. Although, lower oil prices will help push down the overall inflation rate and thereby benefit consumers, energy accounts for only about seven percent of a typical consumer's budget. And, when talking about inflation psychology, falling energy prices probably won't ease consumers' concerns all that much when they find themselves paying over six percent more for medical care and apparel than they were in November 1986. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	12/23/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	226.735	+ .171	+18.031
Loans to Depository Inst.	.586	− .289	+ .032
Float	1.188	− .754	− .225
Total Reserve Bank Credit	244.707	− .343	+17.642
Treasury Deposits with Federal Reserve Banks	4.219	− .598	+ .828
Currency in Circulation	227.672	+ 1.225	+17.911
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	197.382	− 1.126	+34.209
	12/16/87		
Member Bank Reserves:			
Total Reserves Held	58.933	+ 1.014	+ 3.008
Excess (Deficiency)	1.203	− .023	+ .463
Net Free Reserves	1.041	+ .033	+ .505
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (12/14/87)	750.9	+ 2.0‡	+ 5.1‡
M2 (November '87)	2,892.2	+ 4.1	+ 4.2
M3 (November '87)	3,657.8	+ 6.0	+ 5.6
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/30/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.81%	6.27%	6.66%
* Federal Agencies	7.20	7.10	7.00
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.20	7.58
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.20	7.25	7.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.00%	Jan.	7.10%
15- 29 days	6.75	Feb.	7.10
30- 59 days	6.75	Mar.	7.05
60- 89 days	6.75	Apr.	7.05
90-179 days	6.75	May	7.05
130-239 days	6.75	Jun.	7.05
240-270 days	6.75		

‡Industrial Paper—Prime			
30- 89 days	7.30%	†Federal Funds	
90-120 days	7.23	Effective Rate	6.50%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,524	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,836	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	4.3	2.5	1.4
Change in Consumer Prices*	Nov '87	3.6%	4.8%	2.4%
Change in Producer Prices*	Nov '87	0.0%	− 2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Nov '87	113,500	113,187	110,432
Unemployment as % of Civilian Labor Force†	Nov '87	5.9%	6.0%	6.9%
Personal Income*	Nov '87	$ 3,834	$ 3,851	$ 3,590
Leading Indicators Composite Index (1967=100)†	Nov '87n	190.2	193.5r	182.7
Industrial Production Index (1977=100) †	Nov '87	132.5	132.0	125.7
Net Change in Consumer Installment Credit †	Oct '87	$ 3.74	$ 6.42	$ 5.59
U.S. Merchandise Trade Balance	Oct '87	−$ 17.63	−$ 14.08	−$ 12.06
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$372.24
Private Housing Starts (Thousands of Units)*	Nov '87	1,637	1,523	1,637
New Construction Expenditures*	Oct '87	$ 407.9	$ 409.8	$ 394.9
Total Business Inventories †	Oct '87	$ 687.9	$ 682.3	$ 655.6
Total Business Sales †	Oct '87	$ 462.2	$ 462.4	$ 429.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

We are pleased to announce that

Perry W. Wilder, III

has joined us as Officer-in-Charge of our newly established

Private Banking Office

in

Los Angeles

Specializing in serving the private capital and investment needs of individuals and investor groups with substantial financial resources. To discuss these customized services, call

In Los Angeles

Perry W. Wilder, III, Officer-in-Charge

Manufacturers Hanover Trust Company
Los Angeles Representative Office
California Plaza
300 South Grand Avenue
Los Angeles, CA 90071
(213) 621-8041

In New York

Peter B. Phelan, Vice President and Region Head

Manufacturers Hanover Trust Company
270 Park Avenue
New York, NY 10017
(212) 286-4831

New York Miami Boca Raton Los Angeles
London Singapore Hong Kong

The Private Banking and Investment Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

2/12/88 B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 2

Friday, January 15, 1988

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Is The Buck Bouncing Back?

Among the more persistent problems plaguing the financial markets both here and abroad are the seeming intractability of the U.S. trade deficit, and the negative effects of this huge red-ink total on the dollar's external value. This linkage was dramatically demonstrated one more time following the announcement of the October trade balance numbers in early December. With the trade deficit widening to a monthly record of $17.6 billion, the dollar subsequently nosedived over the remainder of the month, sliding to record lows against most major currencies. Even a renewed commitment by the G-7 industrial countries late last month to foster currency stability through foreign exchange market intervention and policy coordination was shrugged off by the markets, and the dollar ended the year on the ropes, ready to test new lows in early 1988.

But despite the dominant strain of bearish sentiment overhanging the foreign exchange markets, widespread expectations of further dollar weakness have so far failed to materialize. For one thing, the resolve of the central banks to mount a dollar defense, and back up their words with dollar buying deeds, was generally underestimated. During the first week of this year, major central banks intervened aggressively in the foreign exchange markets worldwide, buying perhaps as much as $4 billion in the open markets. This undertaking not only pushed the dollar's external value decidedly higher, up some six percent against the yen and nearly five percent versus the Deutschemark during the first five trading days of 1988, but also tempered the dollar selling enthusiasm of currency traders and speculators worldwide. For another, prospects for a sizable narrowing of the trade deficit in coming months gained a fair degree of credence in early January, a development which also tended to underpin the dollar.

Manufacturers
Hanover
Economics
Department
17/270

The "Real" Trade Balance Is Improving

While central bank intervention can shore up the dollar temporarily, the fact remains that its longer-term fate will hinge on the pace at which the trade deficit either narrows or widens. This is why the trade statistics are now so closely watched. And, although hefty monthly trade deficits persist, there are actually several signs suggesting that the U.S. trade picture is improving, and that the dollar, rather than perched at the edge of a precipice, may be consolidating around a bottom at or near present levels.

Unfortunately, the extent of the progress in trimming the now $175 billion trade deficit, as measured in current dollars, is being masked by a combination of rising import prices in general, petroleum prices in particular and the ballooning of the trade deficit with the newly industrializing East Asian countries—Taiwan, South Korea, Hong Kong, and Singapore. But if one looks behind the current dollar numbers, at the inflation-adjusted or so-called volume statistics, it appears that the deterioration of the trade balance has not only stopped, but is in remission.

Between the third quarter of 1986 and the third quarter of 1987, the latest "real" trade data available, export volumes increased sharply while real imports have stood virtually still. Inflation-adjusted exports are up by 17½ percent, while import volumes have increased by just three percent. What is more, the inflation-adjusted trade deficit, excluding petroleum, peaked in the third quarter of 1986, and has since narrowed by some 30 percent.

But, with import price increases far outpacing export price increases, this volume progress has been masked. During the 12 months ending in September, import prices rose by better than 12 percent while export prices increased by less than 4½ percent. Rising oil prices were a principal culprit behind the import price hikes, as was the depreciation of the dollar during this period. For while the descent of the dollar in the foreign exchange markets has enhanced the price attractiveness of U.S. products overseas, it has also lifted the dollar price of imported products.

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

Exports Soar While Imports Slow

However, even in current dollar terms, there are signs of improvement, especially on the export side of the ledger, witness the 9½ percent surge in exports in November. Combined with a six percent drop in imports, this performance cut November's trade deficit to $13.2 billion from $17.6 billion in the previous month. However, the deficit widened in the first 11 months of 1987 to $159 billion from $153.6 billion in the same period of 1986.

It is on the import side that the U.S. trade deficit seems most intractable. It appears that as long as the economy continues to expand, so does the appetite for foreign goods, particularly from East Asia. The growing deficit with the newly industrializing countries (NICs) of East Asia–Taiwan, Korea, Hong Kong, and Singapore–is a major obstacle to rapid trade balance improvement. The deficit with these countries soared to over $35 billion during the first 11 months of this year, accounting for almost one quarter of our global trade deficit–compared with about 8½ percent at the beginning of this decade.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/87)	174,082	+ 353	+ 18,088
New York City (1/6/88)	37,226	– 352	+ 1,591
Commercial Paper (1/6/88)	376,595	+19,083	+ 44,532

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/87)	280,163	+ 1,903	–11,559
New York City (1/6/88)	59,575	+ 696	– 7,913

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/87)	809,802	+ 2,692	+ 7,697
New York City (1/6/88)	175,085	+ 2,286	+ 161

Financial Markets

	Friday 1/15/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.04%	– .01	+ .56
180-Day Bills†	6.55	– .21	+ .97
Longest Bills†	6.95	– .23	+ 1.28
Recent Issues:			
7 7/8s 12/31/89	7.56	– .30	
8 1/4s 12/31/91	7.97	– .37	
8 7/8s 11/15/97	8.59	– .40	
8 7/8s 8/15/17	8.77	– .38	
Municipals:			
Bond Buyer–20 Bond Index* (1/14/88)	8.10%	+ .27	+ 1.45
Blue List Total ($ Million)	$ 783	– $103	–$ 953
30-Day Visible Supply ($ Million)	$1,547	+ $331	–$1,655
Total	$2,330	+ $228	–$2,608
Corporates:			
Moody's Aa Composite (1/14/88)	10.21%	+ .04	+ 1.37
30-Day Visible Supply ($ Million)	$6,033	+ $ 25	+$3,868
Stocks:			
Dow-Jones Averages:			
Industrials	1,956.07	+ 44.76	– 120 56
Transportation	756.00	+ 11.00	– 116.21
Utilities	178.40	– 3.32	– 44.42
65 Stocks	721.81	+ 10.45	– 80.57
N.Y.S.E. Composite Index	141.16	+ 4.13	– 11.05
N.Y.S.E. Avg. Daily Vol. for Week (000's)	163,706	– 23,039	– 44,452

*34% Taxable equivalent 12.27%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/15/88	Week Ago
Overnight	6.13%	6.63%
1 month	6.94	7.00
3 month	7.13	7.25
6 month	7.25	7.44
1 year	7.69	7.81

EURODOLLAR BONDS Average Yield	Friday 1/15/88	Week Ago
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/15/88)	Currency Per U.S. $	Week Ago
Canada	1.2896	1.2865
France	5.5350	5.5950
Germany	1.6695	1.6545
Italy	1226.00	1218.00
Japan	129.00	129.87
Mexico	2207.00	2204.00
Switzerland	1.3695	1.3540
U.K.*	1.7840	1.8020

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (1/15/88) (Adjusted for Inflation)	+0.3%	–1.9%

What is more, until recently, the NICs have kept their currencies closely tied to the U.S. dollar. This has limited the appreciation of their currencies versus the slumping dollar, enhancing their relative competitive edge in the United States market. For this reason, the dollar's trade-weighted depreciation since February 1985 against the currencies of our major trading partners is much less pronounced when the NICs are included than when they are not.

As long as consumption exceeds production, the trade deficit will remain sizable. To some extent, it is a reflection of the vigor of the U.S. economy and suggests that domestic demand must be dampened if there is to be a sustained narrowing of the trade deficit. However, it may not be too much longer before this occurs. With growth of consumer spending in real terms already falling, and the dollar drop in the foreign exchange markets likely to dampen spending on more costly imports even more, the worst could be just about over for the U.S. trade deficit in both current dollar and real terms. If so, the dollar's fortunes could improve as well. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	1/13/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	227.889	– 3.004	+14.941
Loans to Depository Inst.	.981	– 1.927	+ .283
Float	2.719	+ 1.513	+ 1.768
Total Reserve Bank Credit	247.116	– 4.035	+15.672
Treasury Deposits with Federal Reserve Banks	3.871	– 1.160	– 2.088
Currency in Circulation	227.825	– 2.086	+16.633
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	204.386	+ 2.887	+40.780
	1/13/88		
Member Bank Reserves:			
Total Reserves Held	61.631	+ 2.670	+ 1.431
Excess (Deficiency)	1.156	+ .319	+ .311
Net Borrowed Reserves	.304	+ .786	+ .859
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (1/4/88)	756.0	– 0.4‡	+ 2.3‡
M2 (December '87)	2,897.1	+ 2.9	+ 3.4
M3 (December '87)	3,665.4	+ 4.8	+ 4.9
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/15/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.91%	6.29%	6.55%
* Federal Agencies	6.65	6.80	6.90
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.06	6.67	7.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.95	7.15	7.50

‡Finance Compan/ Paper—Prime	
5- 14 days	6.55%
15- 29 days	6.63
30- 59 days	6.70
60- 89 days	6.78
90-179 days	6.88
180-239 days	6.90
240-270 days	6.90

‡* Bankers' Acceptances	
Feb.	6.70%
Mar.	6.70
Apr.	6.75
May	6.90
Jun.	6.90
Jul.	6.95

‡Industrial Paper—Prime	
30- 89 days	6.78%
90-120 days	6.88

†Federal Funds	
Effective Rate	6.80%

‡Discount basis. •Subject to availability. † Es.imated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,524	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,836	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	4.3	2.5	1.4
Change in Consumer Prices*	Nov '87	3.6%	4.8%	2.4%
Change in Producer Prices*	Dec '87n	– 3.6%	0.0%	1.2%
Civilian Employment (Thousands of Persons) †	Dec '87n	113,744	113,504r	110,657r
Unemployment as % of Civilian Labor Force†	Dec '87n	5.8%	5.9%	6.7%
Personal Income*	Nov '87	$ 3,834	$ 3,851	$ 3,590
Leading Indicators Composite Index (1967=100)†	Nov '87	190.2	193.5	182.7
Industrial Production Index (1977=100) †	Dec '87n	133.3	133.1r	126.9
Net Change in Consumer Installment Credit †	Nov '87n	$ 2.22	$ 2.88r	$ 0.78
U.S. Merchandise Trade Balance	Nov '87n	–$ 13.22	–$ 17.63	–$ 19.22
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$372.24
Private Housing Starts (Thousands of Units)*	Nov '87	1,637	1,523	1,637
New Construction Expenditures*	Nov '87n	$ 419.5	$ 410.6r	$ 390.7
Total Business Inventories †	Nov '87n	$ 695.5	$ 689.9r	$ 655.3r
Total Business Sales †	Nov '87n	$ 461.4	$ 462.4r	$ 429.8r

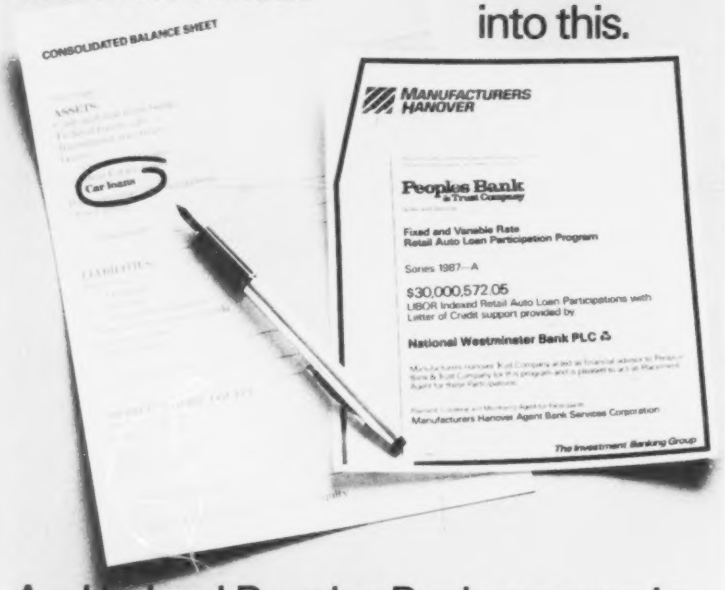
*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Structured Solutions

We turned these

into this.



CONSOLIDATED BALANCE SHEET

ASSETS

Car loans

LIABILITIES

MANUFACTURERS HANOVER

Peoples Bank
& Trust Company

Fixed and Variable Rate
Retail Auto Loan Participation Program

Series 1987—A

$30,000,572.05
LIBOR Indexed Retail Auto Loan Participations with
Letter of Credit support provided by

National Westminster Bank PLC

Manufacturers Hanover Agent Bank Services Corporation

The Investment Banking Group

And helped Peoples Bank manage its balance sheet and loan growth.

Peoples Bank and Trust, a billion dollar bank located in Rocky Mount, North Carolina, has been very successful in generating profits through new car loans. For Peoples, the challenge was continued loan growth, without constraining its balance sheet.

Manufacturers Hanover Trust responded by packaging and selling Peoples consumer loan receivables. Securitization of these assets enabled Peoples to continue a profitable line of business, retain servicing income and satisfy customer needs.

No matter what type of consumer loans are in your portfolio—car loans, credit card loans, boat loans—Manufacturers Hanover can show you innovative ways to restructure your assets and manage your balance sheet. Call your Manufacturers Hanover relationship manager today for details.

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

2/12/88 BS 350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 3

Monday, February 1, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Stock Market Crash Dims New York City's Prospects

More than three months after the stock market crash of October 19, 1987, many New Yorkers are still nervously assessing its impact on the local economy. While there remains some debate regarding the effects of the stock market decline on the national economy, one thing is almost certain–New York City will feel the effects of the market's plunge to a greater extent than the rest of the U.S. This is because nearly half of the total U.S. brokerage firms' employment is located in New York City and the boom in the securities industry has driven the city's growth in the 1980s, accounting for one out of every four new jobs generated in the city's private sector in that period.

Since October 19, New Yorkers have become more aware than ever that the city's economic well-being is closely tied to the stock market's performance. Black Monday underscored the vulnerability of the city's heavy reliance on the volatile financial industry. The market crash and its aftershocks have already inflicted serious damage to New York's economy, as evidenced by the widespread actions taken by brokerage firms and commercial banks to slash their payrolls. Estimates of the decline in employment in the financial sector as a direct result of the stock price debacle range from about 10,000 to as many as 40,000 persons.

The income loss resulting from the layoffs in these institutions will have a disproportionately higher negative impact on the area's economy because compensation for brokerage and banking employees is, on average, higher than in other industries. Compensation in the securities industry averages about $65,000 annually and about $33,000 in commercial banking compared with $24,000 in the nonfinancial sectors.

The First Casualty Is The Financial Sector

What's more, the retrenchment in the financial industry will spill over into other sectors. It is generally believed that each job lost in the financial sector will be matched by another job and a half in such downstream industries as advertising, retailing, and real estate. As a result, New York City's job count will likely decline this year–the first annual drop since 1982. Thus, income growth will be more subdued, upscale retailers may be negatively affected, and home prices will soften. Slower economic activity, in turn, will affect New York City's revenues, particularly those generated from the economically sensitive sales, personal income, corporate and unincorporated business taxes. Not surprisingly, New York City has already moved to shore up its finances: A 90-day hiring freeze has been imposed in anticipation of a revenue dip.

The ongoing retrenchment in the financial sector and related industries will have particular impact on real estate. Whatever the actual number of lost jobs turns out to be, already some effects are apparent. In the fourth quarter of last year, prime office space vacancy rates climbed in the Wall Street area from 10.5 percent at the end of the third quarter to 11 percent. In the midtown Manhattan area, vacancy rates rose a whopping 1.6 percentage points from 7.6 percent to 9.2 percent in the same period. In the downtown area, leasing activity plunged from over 1.7 million square feet in the third quarter, to less than 1.3 million square feet in the fourth quarter. And, if "only" 40,000 people lose their jobs, then at least six million square feet of unused office space will be added to the 24 million vacant footage believed to already exist–an increase of one-fourth.

While the stock market crash has clouded the outlook for New York City's economy, it is too soon for the available data to reveal its impact on the city's total employment picture. Last year New York's economy continued to charge ahead, generating almost 50,000 new jobs in the 12 months ending November 1987, 6,500 more than in the immediately preceding 12-month period. Employment gains, however, were confined

270 Park Avenue, New York, NY 10017

to the nonmanufacturing sectors while the shakeout in manufacturing employment continued, although at a slower pace than in 1986. The loss of factory jobs slowed to 5,900 in the latest 12 months compared with a decline of 17,000 a year earlier.

The Rest Of The Economy Is Unscathed

In the nonmanufacturing sector, growth was once again fueled by the financial and service industries which, while accounting for about half of total nonmanufacturing employment, contributed 86 percent of all new jobs since November 1986. The service sector—the largest single source of employment in the city—added almost 32,000 new jobs to its payrolls. As a result, the service job count climbed to an all-time high of over 1.1 million November 1987.

The finance, insurance, and real estate sector increased its employment by 16,000, with securities firms contributing almost 15,000 of these new jobs. Banking employment, on the other hand, shrank by 3,600 positions. While the construction sector gained more

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/88)	183,302	+ 748	+ 17,419
New York City (1/20/88)	37,529	– 711	+ 1,472
Commercial Paper (1/20/88)	376,455	– 1,146	+ 39,875

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/88)	288,659	– 2,457	– 6,791
New York City (1/20/88)	56,687	– 571	– 8,109

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/88)	860,466	– 4,589	+ 17,712
New York City (1/20/88)	173,215	+ 1,609	–31,096

Financial Markets

	Friday 1/29/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.80%	– .17	+ .07
180-Day Bills†	6.29	– .18	+ .49
Longest Bills†	6.63	– .17	+ .74
Recent Issues:			
$7\frac{3}{8}$s 1/31/90 (When Issued)	7.19	NA	
$8\frac{1}{4}$s 12/31/91	7.62	– .23	
$8\frac{7}{8}$s 11/15/97	8.25	– .22	
$8\frac{7}{8}$s 8/15/17	8.42	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (1/28/88)	7.51%	– .10	+ .95
Blue List Total ($ Million)	$1,006	+ $102	–$ 637
30-Day Visible Supply ($ Million)	$2,271	+ $620	–$1,021
Total	$3,277	+ $722	–$1,658
Corporates:			
Moody's Aa Composite (1/28/88)	9.85%	– .23	– 1.01
30-Day Visible Supply ($ Million)	$ 750	– $445	–$1,897
Stocks:			
Dow-Jones Averages:			
Industrials	1,958.22	+ 54.71	– 199.82
Transportation	764.29	+ 21.43	– 110.59
Utilities	190.02	+ 7.77	– 34.70
65 Stocks	731.40	+ 21.94	– 90.77
N.Y.S.E. Composite Index	144.13	+ 5.44	– 11.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	193,660	+ 38,802	+ 14,418

*34% Taxable equivalent 11.38%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/29/88	Week Ago
Overnight	6.50%	6.44%
1 month	6.69	6.81
3 month	6.81	7.05
6 month	6.88	7.19
1 year	7.25	7.63

EURODOLLAR BONDS

Average Yield	Friday 1/29/88	Week Ago
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/29/88)	Currency Per U.S. $	Week Ago
Canada	1.2763	1.2800
France	5.5640	5.6330
Germany	1.6777	1.6710
Italy	1235.50	1229.25
Japan	127.98	127.80
Mexico	2211.00	2208.00
Switzerland	1.3675	1.3569
U.K.*	1.7695	1.7822

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/29/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	+0.2%	–5.9%

than 5,000 workers, its rate of job creation was only half of the previous year's. So too, the job gain in the local government was reduced to a trickle; the city government added only 2,200 jobs in the 12 months ending November 1987 compared with an average gain of about 12,000 new jobs a year since 1982. However, with almost 449,000 people working in city government, its employment is at a near-record level, approaching the peak reached during New York's fiscal crisis of the mid-70s. The city government is the second largest single employer.

The course of New York's economy in 1988 will depend on whether or not the stock market continues to falter, consumer spending is significantly curtailed and the nation as a whole experiences a recession. But while leaner times lie ahead, New York City's economic base remains fundamentally sound and its performance will unlikely be a re-run of the mid-1970s. Then, in the midst of another stock market slump, high inflation rates, widespread corporate defections, commercial and residential over-building and fiscal problems magnified the severity and duration of the city's economic downturn. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	1/27/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	227.116	+ .848	+15.342
Loans to Depository Inst.	.422	– .171	– .557
Float	1.508	– .391	– 2.816
Total Reserve Bank Credit	244.822	+ .264	+10.621
Treasury Deposits with Federal Reserve Banks	8.941	+ 5.420	– 7.912
Currency in Circulation	224.244	– 1.734	+18.325
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	210.231	+ 4.998	+46.625
	1/27/88		
Member Bank Reserves:			
Total Reserves Held	59.449	– 2.223	+ 2.222
Excess (Deficiency)	1.362	+ .061	+ .156
Net Free Reserves	1.186	+ 1.345	+ .442
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (1/18/88)	761.5	+ 0.8‡	+ 2.5‡
M2 (December '87)	2,895.6	+ 2.8	+ 3.4
M3 (December '87)	3,662.3	+ 4.5	+ 4.8
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/29/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.67%	6.03%	6.25%
* Federal Agencies	6.40	6.45	6.65
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.44	6.82	7.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.70	6.77	7.12

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.55%	Feb.	6.50%
15- 29 days	6.55	Mar.	6.55
30- 59 days	6.60	Apr.	6.55
60- 89 days	6.63	May	6.55
90-179 days	6.63	Jun.	6.55
180-239 days	6.63	Jul.	6.55
240-270 days	6.63		

‡Industrial Paper—Prime			
30- 89 days	6.63%	†Federal Funds	
90-120 days	6.65	Effective Rate	6.75%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87n	$ 4,598	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87n	$ 3,875	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87n	4.2	4.3	1.5
Change in Consumer Prices*	Dec '87n	1.2%	3.6%	2.4%
Change in Producer Prices*	Dec '87	– 3.6%	0.0%	1.2%
Civilian Employment (Thousands of Persons)†	Dec '87	113,744	113,504	110,657
Unemployment as % of Civilian Labor Force†	Dec '87	5.8%	5.9%	6.7%
Personal Income*	Dec '87n	$ 3,865	$ 3,836r	$ 3,613
Leading Indicators Composite Index (1967=100)†	Nov '87	190.2	193.5	182.7
Industrial Production Index (1977=100) †	Dec '87	133.3	133.1	126.9
Net Change in Consumer Installment Credit †	Nov '87	$ 2.22	$ 2.88	$ 0.78
U.S. Merchandise Trade Balance	Nov '87	–$ 13.22	–$ 17.63	–$ 19.22
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$372.24
Private Housing Starts (Thousands of Units)*	Dec '87n	1,374	1,639r	1,813
New Construction Expenditures*	Nov '87	$ 419.5	$ 410.6	$ 390.7
Total Business Inventories †	Nov '87	$ 695.5	$ 689.9	$ 655.3
Total Business Sales †	Nov '87	$ 461.4	$ 462.4	$ 429.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Quality

Ritz Carlton Naples Florida
Owner Developer W.B. Johnson Properties, Inc

The Financial Source℠: Responsive to the visions of the nation's premier developers.

Manufacturers Hanover Trust arranged the construction financing for Florida's Ritz Carlton hotel in Naples. This luxury resort hotel is just one example of our total commitment to the real estate industry.

From residential developments to hotel complexes, office skyscrapers to industrial parks, Manufacturers Hanover can put together financing programs to fit your exact requirements.

[illegible]

The Real Estate Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

4/17/88 BS 350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 4

Friday, February 12, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

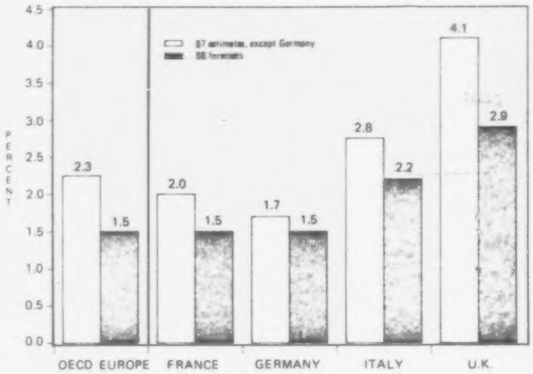
A Mixed Economic Picture In Europe

Although the Federal Reserve's policy-setting Federal Open Market Committee probably spent much of its time at this week's meeting debating just how strong or weak the U.S. economy is, the business outlook in Europe seems somewhat more discernable. With the region's growth prospects clouded both by the persistent sluggishness of the German economy and a fading of global export price competitiveness due to the sharp appreciation of the European currencies relative to the U.S. dollar, another year of subdued economic growth seems likely. To be sure, while such bright spots as the United Kingdom and Spain do exist in this mixed regional picture, they are too few and far between to offer much hope to either the 16¼ million people now unemployed in the European Community, or to those who look for faster European growth to help put a big dent in the wide U.S. trade deficit.

Since Germany alone accounts for one quarter of Europe's gross national product, and is the largest trading partner of several other European countries, subdued German economic growth has a significant impact on the rest of the region. Last year, Germany's "real" economy expanded by an anemic 1.7 percent, prompting an international chorus of calls for the German government to adopt more stimulative economic policies. But despite this, and an unemployment rate that remains stubbornly high, the authorities have been extremely reluctant to prime the economic pump, citing the inflationary dangers of an already brisk pace of money supply growth, which has been above target for two years in a row, and the fact that their Federal budget deficit may surpass the equivalent of two percent of GNP this year, up from a low point of about one percent in 1985. For these reasons, German policymakers believe that their ability to stimulate the economy without reawakening inflation expectations is limited.

Above-target money growth in Germany stems partially from repeated foreign exchange market interventions by the central bank, which is often buying dollars with newly-created Deutschemarks in order to stem the fall of the U.S. currency. And while its threat may have been exaggerated, given the decline in German money velocity, the fact remains that policy is only being altered at a snail's pace and the overall German economy has little forward momentum. Not only was real GNP growth last year actually slower than in the year before, but domestic factory orders are soft, the unemployment rate is rising and the trade surplus remains at record levels. What is more, with consumer prices barely inching higher, wholesale prices stable and Deutschemark-denominated commodity prices plunging, any threat of renewed inflation seems remote.

REAL GNP/GDP IN SELECTED EUROPEAN COUNTRIES
(ANNUAL GROWTH RATES)



Sources: OECD, national statistical agencies, MH estimates

Sluggish Growth Is Contagious

If the effects of slow German growth and cautious public policies could be confined to Germany, Europe's outlook might be somewhat brighter. However, they can't, and the impact on France, Western Europe's second largest economy, is a good example of why not. With the Deutschemark's external value benefiting from Germany's record trade and current account surpluses, not to mention attractive inflation-adjusted bond yields, the Bank of France confronts a policy dilemma. It is that, despite slow French growth, the central bank is reluctant to ease monetary policy and drive interest rates decidedly lower, since it fears that such a move would place significant downward pressures on the French currency's value versus the mark.

270 Park Avenue, New York, NY 10017

For this same reason, the French central bank found itself forced to hike short-term domestic interest rates in the wake of the October stock price collapse, while its central bank counterparts almost everywhere else were doing the opposite. Although these increases have recently been reversed, this move comes none too soon, since industrial production was flat in November, and the French economy is unlikely to grow by more than 1½ percent this year, even slower than the two percent growth rate expected for all of 1987.

Nor does this bode well for other countries. With the bulk of Western Europe's trade transacted with one another, subdued growth in Germany and France becomes not only self-reinforcing, but contagious. Since Italy's principal export markets are in these two countries, it is hardly surprising that Italian export growth is floundering, a worsening foreign trade balance is acting as a substantial drag on overall growth and the lira is heading lower in the foreign exchange markets (see chart on page 1).

The United Kingdom Bucks The Trend

While the Continental countries continue to

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/27/88)	181,456	+ 802	+ 14,746
New York City (1/27/88)	38,440	+ 891	+ 2,555
Commercial Paper (1/27/88)	377,541	+ 647	+ 43,018

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/27/88)	288,396	– 428	– 6,074
New York City (1/27/88)	56,087	– 603	– 9,822

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/27/88)	864,814	+ 1,321	+18,225
New York City (1/27/88)	174,168	+ 925	–34,124

Financial Markets

	Thursday 2/11/88	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.79%	– .01	– .01
180-Day Bills †	6.15	– .03	+ .30
Longest Bills †	6.55	+ .04	+ .53
Recent Issues:			
7 3/8s 1/31/90	7.08	–0–	
8 1/4s 12/31/91	7.46	– .03	
8 1/8s 2/15/98 (When Issued)	8.15	– .04	
8 7/8s 8/15/17	8.35	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (2/11/88)	7.40%	– .09	+ .73
Blue List Total ($ Million)	$1,206	+ $ 4	– $683
30-Day Visible Supply ($ Million)	$2,021	– $ 78	– $ 72
Total	$3,227	– $ 74	– $755
Corporates:			
Moody's Aa Composite (2/10/88)	9.53%	– .14	+ .62
30-Day Visible Supply ($ Million)	$1,351	– $565	– $956
Stocks:			
Dow-Jones Averages:			
Industrials	1,961.54	+ 51.06	– 221.81
Transportation	774.14	+ 15.57	– 148.22
Utilities	184.33	– 1.95	– 36.59
65 Stocks	731.15	+ 13.79	– 106.74
N.Y.S.E. Composite Index	143.99	+ 2.64	– 15.57
N.Y.S.E. Avg. Daily Vol. for Week (000's)	180,202	– 11,928	+ 6,098

*34% Taxable equivalent 11.21%.

† Bond equivalent.

International Rates

	Thursday 2/11/88	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	6.31%	6.44%
1 month	6.50	6.63
3 month	6.63	6.75
6 month	6.69	6.82
1 year	7.00	6.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.22	10.22

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/11/88)	Currency Per U.S. $	Week Ago
Canada	1.2705	1.2710
France	5.7240	5.7080
Germany	1.6904	1.6910
Italy	1247.45	1245.30
Japan	128.98	128.65
Mexico	2239.00	2228.00
Switzerland	1.3871	1.3847
U.K.*	1.7600	1.7620

*U.S. $ per U.K. pound

	Change Since	
	Week Ago	2/27/85
MH TRADE-WEIGHTED DOLLAR (2/11/88) (Adjusted for Inflation)	+0.3%	–4.8%

search for a growth spark, the economy of the United Kingdom has been expanding rapidly. Fueled by robust employment and income gains, retail sales are booming and manufacturing output is rising. The subdued inflation rate is running at levels not seen since the early 1960s, while the government's budget should be in the black this year for the first time in nearly two decades. In fact, the principal task of policymakers in the United Kingdom is to ensure that the economy does not overheat, rather than stall–fanning inflation expectations and leading to an unsustainable widening of the trade deficit.

On balance, Europe's mixed economic picture contains both pluses and minuses for the global economy. On the plus side, modest growth in many of the largest industrial countries helps to keep a lid on commodity prices and inflation rates. However, there seem to be more minuses: A slowly expanding European economy dims the job prospects of the area's unemployed, compounds the financial difficulties of the developing countries and, of special importance to the United States, impedes the correction of the large trade and current account imbalances which currently plague the U.S. economy and the financial markets. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/3/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	225.543	– 1.573	+16.501
Loans to Depository Inst.	.293	– .129	– .155
Float	1.052	– .412	+ .121
Total Reserve Bank Credit	242.458	– 2.311	+14.167
Treasury Deposits with Federal Reserve Banks	8.125	– .816	– 4.770
Currency in Circulation	223.413	– .831	+17.781
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	212.987	+ 2.756	+46.312
	1/27/88		
Member Bank Reserves:			
Total Reserves Held	59.375	– 2.302	+ 2.148
Excess (Deficiency)	1.308	+ .004	+ .102
Net Free Reserves	1.132	+ 1.464	+ .388

		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (1/25/88)	766.3	+ 0.4‡	+ 3.3‡
M2 (December '87)	2,895.4	+ 2.7	+ 3.4
M3 (December '87)	3,662.6	+ 4.6	+ 4.9
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/11/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.66%	5.90%	6.17%
* Federal Agencies	6.30	6.30	6.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.67	7.12
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.55	6.60	6.90

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.35%	Mar.	6.38%
15- 29 days	6.40	Apr.	6.38
30- 59 days	6.40	May	6.38
60- 89 days	6.40	Jun.	6.38
90-179 days	6.40	Jul.	6.38
180-239 days	6.30	Aug.	6.38
240-270 days	6.30		

‡Industrial Paper–Prime			
30- 89 days	6.45%	†Federal Funds	
90-120 days	6.45	Effective Rate	6.47%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

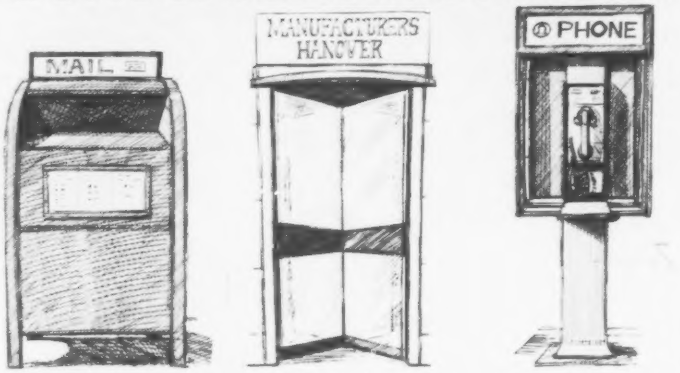
	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,598	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,875	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.2	4.3	1.5
Change in Consumer Prices*	Dec '87	1.2%	3.6%	2.4%
Change in Producer Prices*	Dec '87	– 3.6%	0.0%	1.2%
Civilian Employment (Thousands of Persons)†	Jan '88n	114,129	113,744	111,014
Unemployment as % of Civilian Labor Force†	Jan '88n	5.8%	5.8%	6.7%
Personal Income*	Dec '87	$ 3,865	$ 3,836	$ 3,613
Leading Indicators Composite Index (1967=100)†	Dec '87n	190.7	191.0r	186.7
Industrial Production Index (1977=100) †	Dec '87	133.3	133.1	126.9
Net Change in Consumer Installment Credit †	Dec '87n	$ 4.45	$ 2.63r	$ 0.14
U.S. Merchandise Trade Balance	Nov '87	–$ 13.22	–$ 17.63	–$ 19.22
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$372.24
Private Housing Starts (Thousands of Units)*	Dec '87	1,374	1,639	1,813
New Construction Expenditures*	Dec '87n	$ 409.7	$ 411.3r	$ 380.9
Total Business Inventories †	Nov '87	$ 695.5	$ 689.9	$ 655.3
Total Business Sales †	Nov '87	$ 461.4	$ 462.4	$ 429.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Responsive

Now you can buy mutual funds at these convenient locations.



Open a Manufacturers Hanover Investment Connection Account℠ and watch what happens. You can buy and sell mutual funds *through* Manufacturers Hanover Trust from wherever you are.

Here's how it works. Just open an Investment Connection Account (where your money earns competitive interest rates) and you can sign up for no-load mutual funds available through Dreyfus Service Corporation and Federated Securities Corp.

When you're ready to invest, just give us a call. We'll have the fund's sponsor mail you all the information you need. Then walk in, call in or mail in your order and we'll process it as soon as we get it.* It's that simple.

Switching funds is just as easy. At a moment's notice, you can move all or part of your investment from one fund to another within the same fund family, or back into your Investment Connection Account where it will earn interest again.

And if that interests you, here's something you'll really like. Every quarter, you'll receive a state-of-the-art statement that puts your entire MHT financial picture right in front of you. It's a quarterly statement that includes a computer-generated pie chart to help you track the growth of all your Manufacturers Hanover accounts as well as your Dreyfus and Federated mutual funds.

Sound nice? Then listen to this. For a limited time, we'll send you a copy of Sylvia Porter's audio-cassette *Mutual Funds Investment Choice of the 80's*, absolutely free, when you open your account.

If you'd like to know more about our Investment Connection Account, just give us a call at **1-800-MHT-BANK.**

Now isn't that convenient?

*Telephone orders are available for redemptions, exchanges or additional purchases only. Full information about the Investment Connection Account including balance requirements and maintenance fees is available at any branch.

The Consumer Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 300
WASHINGTON, DC 20014

Financial Digest

3/8/88 B 5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 5

Monday, February 29, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Monetary Policy: Steady As She Goes

Despite widespread expectations that the Federal Reserve was on the threshold of a decided easing of monetary policy, it now appears that hope outdistanced reality in recent weeks, and that a substantial loosening of the credit reins, if it occurs at all, may be months away. Although Fed Chairman Alan Greenspan did acknowledge in last week's Congressional testimony that the central bank had eased policy slightly "a few weeks ago", additional steps in this direction anytime soon seem unlikely. This is because the Fed remains convinced, as the Fed Chairman also stated, that the economy will grow at a moderate clip this year. Also, nagging doubts persist as to both just how subdued inflation expectations really are and how permanent the dollar's new-found stability actually is. Thus, monetary policy is unlikely to change in any direction—until such time, of course, as either clearer evidence of an economic slowdown prompts a shift toward greater ease, or a pickup in the rate of inflation causes the opposite.

With monetary policy currently in a holding pattern, speculation among the "Fed-watchers" now centers on what the central bank's next move will be—and when. But, determining whether the economy is soon going to slow sufficiently to prompt greater ease, or whether a rebounding inflation rate will produce more restraint, is no easy task. As is often the case, but perhaps more so since the stock market plunge of last October, no clear consensus exists as to whether the economy is poised to expand, contract or just tread water for a while. What is more, the latest economic statistics don't help much; they paint a mixed picture, at best.

For example, although the unemployment rate held steady in January at an 8½ year low, the rate of jobs growth slowed. And while big-ticket, durable goods orders in January suffered their largest one-month drop in a year, new orders for nondefense capital goods, a barometer of future plant and equipment spending, posted a good-sized gain. Automobile sales have been bouncing higher in recent weeks, but housing starts and new home sales have tumbled. And, while the estimate of inflation-adjusted gross national product growth in the fourth quarter of last year has been revised higher, the fact remains that a hefty portion of the GNP gain still stems from a large buildup of inventories—doing little to dampen fears that a pronounced inventory correction could lead the economy into a recession.

Economic and Price Trends Suggest Caution

While the recent consumer spending, housing and inventory statistics suggest generally weaker business conditions in the months ahead, possibly justifying a switch toward greater ease, there are still several clear-cut sources of economic strength which tend to diminish the urgency of such a move. For one thing, exports are still growing at a healthy clip, measured in both current dollar and volume terms, a trend which at long last promises a narrower trade deficit and better times ahead for industrial America. For another, sizzling export sales have helped push utilization rates in the manufacturing sector to their highest levels in eight years.

This, in turn, has put pressure on firms in a wide variety of industries to step up capital spending, despite the fact that domestic demand conditions are less than robust. However, as the sources of growth shift from consumer and government spending to exports and business capital spending, which are smaller segments of the economy, it would be highly unusual if the pace of business did not decelerate. Thus, the Fed's decision to keep its policy stance steady is a clear gamble that today's slower growth is a sign of the emergence of a better-balanced business expansion, rather than the precursor of a recession.

The principal explanation for the Fed's hesitancy to ease is a concern that if the degree of weakness in the economy is overestimated, and credit conditions are overtly eased, the mistake could be a big one: It could touch off a renewed upturn in the rate of inflation. As Chairman Greenspan pointed out in his Congressional testimony, at current levels of resource utilization and with import prices rising due to past dollar declines in the foreign exchange markets

Manufacturers Hanover Economics Department 17/270

270 Park Avenue, New York, NY 10017

"vigilance against signs of a re-emergence of greater inflationary pressures will continue to be needed". What is more, the 0.4 percent month-over-month advance in January's Producer Price Index is hardly reassuring it brought to nearly six percent the rate of producer price inflation over the past year, excluding changes in the volatile food and energy components. And on this basis, January's Consumer Price Index rose a hefty 0.5 percent a six percent annual rate!

The Money Supply May Justify More Ease

With sizable segments of the economy and the rate of inflation exhibiting a fair degree of buoyancy, expectations of an easier monetary policy appear dashed. But are they? For the optimists who still long for a decided loosening of the money reins, even in the absence of signs of a pronounced business downturn, there is a ray of hope. It is the money supply, and the recent decision by the Fed to release the M2 and M3 numbers weekly. Although the financial markets have tended to ignore the monetary aggregates ever since the Fed divorced policy actions from the weekly M1 money trends, the decision to release the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/10/88)	182,699	+ 1,218	+ 15,699
New York City (2/17/88)	38,517	+ 60	+ 1,743
Commercial Paper (2/17/88)	387,030	+ 1,278	+ 49,723

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/10/88)	289,475	– 197	– 5,698
New York City (2/17/88)	56,099	+ 418	– 9,790

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/10/88)	867,622	– 1,611	+26,655
New York City (2/17/88)	172,561	– 1,931	–33,086

Financial Markets

	Friday 2/26/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.75%	– .08	+ .18
180-Day Bills†	6.02	– .21	+ .37
Longest Bills†	6.59	– .06	+ .74
Recent Issues:			
7 1/8S 2/28/90 (When Issued)	7.11	NA	
8 1/4S 12/31/91	7.50	– .05	
8 1/8S 2/15/98	8.17	– .08	
8 7/8S 8/15/17	8.37	– .07	
Municipals:			
Bond Buyer–20 Bond Index* (2/25/88)	7.52%	– .03	+ .93
Blue List Total ($ Million)	$1,205	– $173	–$ 811
30-Day Visible Supply ($ Million)	$1,464	+ $105	–$2,866
Total	$2,669	– $ 68	–$3,677
Corporates:			
Moody's Aa Composite (2/25/88)	9.53%	– .07	+ .68
30-Day Visible Supply ($ Million)	$1,307	– $ 52	–$1,652
Stocks:			
Dow-Jones Averages:			
Industrials	2,023.21	+ 8.62	–200.78
Transportation	826.36	+ 10.82	–109.32
Utilities	182.36	– 2.21	– 36.61
65 Stocks	756.38	+ 3.33	– 92.84
N.Y.S.E. Composite Index	147.70	+ .74	– 14.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	1[illegible]1,714	+ 30,531	+28,718

*34% Taxable equivalent 11.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/26/88	Week Ago
Overnight	6.38%	6.56%
1 month	6.69	6.68
3 month	6.69	6.75
6 month	6.81	6.88
1 year	7.13	7.19

EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES New York Opening (2/26/88)	Currency Per U.S. $	Week Ago
Canada	1.2632	1.2716
France	5.7140	5.7685
Germany	1.6885	1.7060
Italy	1244.00	1256.25
Japan	128.27	130.00
Mexico	2267.00	2243.00
Switzerland	1.3890	1.3983
U.K.*	1.7725	1.7495

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/26/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	–5.2%

broader money figures on a weekly basis may re-focus market attention on money growth rates, target ranges and their policy implications.

At this time, the year-to-date growth of M2—the Fed's most important money measure—stands right around the midpoint of this year's four-to-eight percent growth target range. However, this comes on the heels of a substantial undershoot of 1987's growth target. Over the balance of this year, M2 could expand by better than 8½ percent and still not exceed this year's upper target boundary. By again drawing the market's attention to the money supply, and the fact that its expansion has been generally more subdued than desired, the Fed could be laying the groundwork for additional monetary stimulus, regardless of trends in the upcoming business and price statistics. If so, Fed policy decisions would no longer be keyed solely to the usual, inconclusive economic statistics. What is more, by citing the need to stimulate flagging money growth, the central bank would have a ready rejoinder to any criticism that it is playing election year economics. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/24/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	223.300	+ 3.290	+22.207
Loans to Depository Inst.	.340	– .169	– .274
Float	.642	– 3.282	+ .098
Total Reserve Bank Credit	238.420	– 1.319	+19.353
Treasury Deposits with Federal Reserve Banks	4.111	+ .686	– .097
Currency in Circulation	224.506	- .536	+18.049
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	220.601	+ 4.548	+52.253
	2/24/88		
Member Bank Reserves:			
Total Reserves Held	57.444	– .765	– 1.804
Excess (Deficiency)	1,060	– .246	– .009
Net Free Reserves	.867	– .296	+ .178
		% Change Since	
Monetary Aggregates †		3 Months Ago ‡*	Year Ago
M1 (2/15/88)	759.9	+ 2.7	+ 3.4‡
M2 (2/15/88)	2,945.7	+ 5.6	+ 3.4**
M3 (2/15/88)	3,722.7	+ 5.5	5.0**
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

† Seasonally adjusted.
‡ Four-week moving average.

* Seasonally adjusted annual rate.
** Based on monthly data.

New York Money Market

Offering Rates 2/26/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.60%	5.78%	6.22%
* Federal Agencies	6.30	6.32	6.40
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.67	6.82	7.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.60	6.70	7.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.38%	Mar.	6.50%
15- 29 days	6.45	Apr.	6.50
30- 59 days	6.45	May	6.50
60- 89 days	6.50	Jun.	6.50
90-179 days	6.50	Jul.	6.50
180-239 days	6.40	Aug.	6.50
240-270 days	6.40		

‡Industrial Paper—Prime			
30- 89 days	6.50%	†Federal Funds	
90-120 days	6.55	Effective Rate	6.55%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

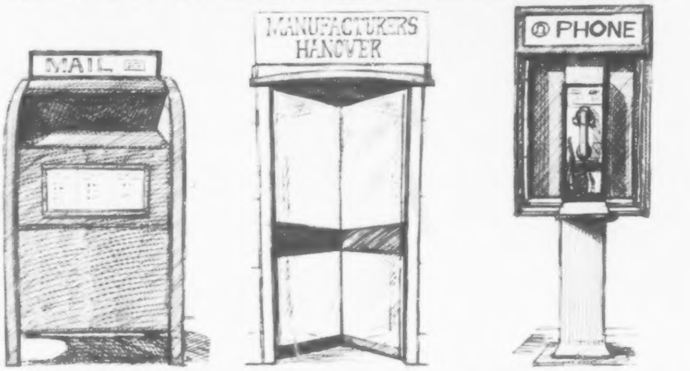
	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,604r	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,878r	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.5r	4.3	1.5
Change in Consumer Prices*	Jan '88n	3.6%	2.4%r	8.4%
Change in Producer Prices*	Jan '88n	4.8%	– 4.8%r	6.0%r
Civilian Employment (Thousands of Persons)†	Jan '88	114,129	113,744	111,014
Unemployment as % of Civilian Labor Force†	Jan '88	5.8%	5.8%	6.7%
Personal Income*	Jan '88n	$ 3,879	$ 3,866r	$ 3,632
Leading Indicators Composite Index (1967=100)†	Dec '87	190.7	191.0	186.7
Industrial Production Index (1977=100) †	Jan '88n	133.8	133.6r	126.2
Net Change in Consumer Installment Credit †	Dec '87	$ 4.45	$ 2.63	$ 0.14
U.S. Merchandise Trade Balance	Dec '87n	–$ 12.20	–$ 13.22	–$ 10.66
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$374.23
Private Housing Starts (Thousands of Units)*	Jan '88n	1,377	1,404r	1,804r
New Construction Expenditures*	Dec '87	$ 409.7	$ 411.3	$ 380.2
Total Business Inventories †	Dec '87n	$ 701.9	$ 696.4r	$ 652.6r
Total Business Sales †	Dec '87n	$ 466.6	$ 460.6r	$ 443.6r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Responsive

Now you can buy mutual funds at these convenient locations.



Open a Manufacturers Hanover Investment Connection Account℠ and watch what happens. You can buy and sell mutual funds *through* Manufacturers Hanover Trust from wherever you are.

Here's how it works. Just open an Investment Connection Account (where your money earns competitive interest rates) and you can sign up for no-load mutual funds available through Dreyfus Service Corporation and Federated Securities Corp.

When you're ready to invest, just give us a call. We'll have the fund's sponsor mail you all the information you need. Then walk in, call in or mail in your order and we'll process it as soon as we get it.* It's that simple.

Switching funds is just as easy. At a moment's notice, you can move all or part of your investment from one fund to another within the same fund family, or back into your Investment Connection Account where it will earn interest again.

And if that interests you, here's something you'll really like. Every quarter, you'll receive a state-of-the-art statement that puts your entire MHT financial picture right in front of you. It's a quarterly statement that includes a computer-generated pie chart to help you track the growth of all your Manufacturers Hanover accounts as well as your Dreyfus and Federated mutual funds.

Sound nice? Then listen to this. For a limited time, we'll send you a copy of Sylvia Porter's audio-cassette *Mutual Funds Investment Choice of the 80's*, absolutely free, when you open your account.

If you'd like to know more about our Investment Connection Account, just give us a call at **1-800-MHT-BANK.**

Now isn't that convenient?

*Telephone orders are available for redemptions, exchanges or additional purchases only. Full information about the Investment Connection Account including balance requirements and maintenance fees is available at any branch.

The Consumer Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463
SRI
CON
452
SUI
WAS

Financial Digest

3/16/88 85350-2

MANUFACTURERS
HANOVER

Financial
Digest

Volume XXV, Number 6

Monday, March 14, 1988

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Regional America: Rust Belt Begins to Shine

A look at the four major regions of the United States reveals both areas of strength as well as pockets of pronounced weakness. However, changes are underway. The Northeast, for example, is losing some of its formerly heady economic momentum due to the stock market plunge of last year, while the long-suffering Rust Belt of the Midwest is beginning to shine as a result of stepped-up industrial production and exports. So, too, much of the West is staging a marked rebound in business activity due to robust export growth while in the South, the picture is somewhat mixed reflecting the lingering effects of too much commercial construction and too low an oil price.

Take, for example, the Midwest. This region, which includes a large chunk of the so-called "Rust Belt", as well as the Farm Belt, was hit hard in the first half of the 1980s by both the 1981-82 recession and, after that, the high-valued dollar. But in the last few years, such manufacturing industries located in this area as steel, autos, trucks and machinery instituted streamlining and restructuring programs. These changes, which included many plant closings and sharp employment cuts, left these industries stronger and better-equipped to compete in world markets.

According to the Federal Reserve Bank of Chicago, industrial output in the Midwest is doing great. The Chicago Fed has assembled a Midwest Manufacturing Index that measures industrial output on a value-added basis in 17 industries in Illinois, Indiana, Iowa, Michigan and Wisconsin. This index rose 4.2 percent in the fourth quarter of 1987 compared with the same period a year ago. The Chicago Fed's U.S. Manufacturing Index, which measures nationwide industrial output on a comparable basis, rose only 3.2 percent over the same period.

As for the agricultural sector of the Midwest, the early 1980s were depression years. Slumping agricultural exports, depressed land values and rising input costs severely strained farmers' finances and caused many failures. But now, the bottoming of the farm recession seems to be apparent.

After falling sharply in 1986, agricultural exports jumped more than 15 percent in the 12 months ending in December 1987. What is more, operating costs are declining, government support programs are at record levels and farmland prices are finally stabilizing. According to a survey by the Department of Agriculture, appraisers of land values are now more optimistic about farm land in the Midwest. More than half the appraisers in the North Central area expect an increase in land prices this year, while only one in ten think values will fall.

Stock Market Debacle Hurts Northeast

While the Midwest is heating up, the Northeast is cooling off. After years of being one of the nation's bright spots, the luster of the Northeast has been dimmed by the stock market crash and the likelihood of defense spending cuts. This is not to say that the area has fallen on hard times. In terms of employment, the area, which includes the six New England states plus New Jersey, New York and Pennsylvania, is still the strongest in the nation. At the end of last year, seven of its nine states posted unemployment rates of less than 3.6 percent, with Massachusetts and New Hampshire having the lowest unemployment rates in the nation.

Stronger Exports Help The West

In the West, things are picking up. After three years of troubled times, much of this region is in the midst of an economic rebound. Once again, an upturn in exports due to a weaker dollar and increased demand for such regional products as wood, copper and livestock are helping to pull much of this area out of its protracted slump.

To be sure, several Western states are still in the doldrums. Montana, Wyoming and Alaska, where lower oil and coal prices have flattened local economies, are especially depressed. Alaska had the third highest unemployment rate in the nation at the end of 1987—9.7 percent. Wyoming, too, has had difficulty getting back on the growth track, despite the fact that the picturesque

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

western half of the state has benefitted significantly from an upsurge in domestic tourism. The number of people working in the "Cowboy State" dropped by 11 percent between 1981 and 1987 and, not surprisingly, the erosion of jobs has led to an exodus of people. Wyoming is now the least populated state—displacing Alaska from last place.

On the positive side are Oregon and Washington, where the paper and lumber industries are again thriving, not to mention Arizona, Nevada and, of course, California, which was largely shielded from the economic slowdown of the early 1980s by its highly diversified economy. Arizona, for example, ranked first in a study of growth rates in the 50 states by INC, a monthly business magazine. The study was based on several factors, including the number of new jobs created and the number of new companies and fast-growth firms started. California ranked eighth and Nevada was tenth in the survey. At the other end of the list, Wyoming ranked last, Montana 48th and Alaska 39th.

A Mixed Picture In The South

In the South, the entire spectrum of economic performance is represented, from

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/24/88)	182,624	+ 854	+ 13,752
New York City (3/2/88)	38,122	+ 74	+ 1,694
Commercial Paper (3/2/88)	391,046	+ 4,627	+ 54,798

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/24/88)	290,315	– 1,233	– 2,863
New York City (3/2/88)	56,345	+ 1,323	– 9,286

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/24/88)	862,259	– 4,751	+23,199
New York City (3/2/88)	172,335	+ 3,149	–32,657

Financial Markets

	Friday 3/11/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.87%	+ .02	+ .12
180-Day Bills†	6.08	– .13	+ .25
Longest Bills†	6.62	– .05	+ .64
Recent Issues:			
7 1/8s 2/28/90	7.16	–0–	
8 1/4s 12/31/91	7.61	+ .05	
8 1/8s 2/15/98	8.28	+ .01	
8 7/8s 8/15/17	8.51	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (3/10/88)	7.67%	+ .20	+ 1.06
Blue List Total ($ Million)	$1,405	+ $ 266	–$1,133
30-Day Visible Supply ($ Million)	$3,643	+ $ 414	–$1,011
Total	$5,048	+ $ 680	–$2,144
Corporates:			
Moody's Aa Composite (3/10/88)	9.55%	+ .11	+ .71
30-Day Visible Supply ($ Million)	$3,640	+ $2,443	+$ 681
Stocks:			
Dow-Jones Averages:			
Industrials	2,034.98	– 22.88	–223.68
Transportation	847.12	– 2.67	– 88.20
Utilities	177.34	– 5.03	– 39.21
65 Stocks	760.81	– 8.74	– 94.73
N.Y.S.E. Composite Index	149.45	– .98	– 15.86
N.Y.S.E. Avg. Daily Vol. for Week (000's)	197,660	– 10,816	+27,178

*34% Taxable equivalent 11.62%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/11/88	Week Ago
Overnight	6.50%	6.44%
1 month	6.69	6.69
3 month	6.75	6.63
6 month	6.88	6.81
1 year	7.25	7.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES New York Opening (3/11/88)	Currency Per U.S. $	Week Ago
Canada	1.2552	1.2545
France	5.6540	5.7260
Germany	1.6617	1.6975
Italy	1232.75	1250.50
Japan	128.40	129.17
Mexico	2273.00	2273.00
Switzerland	1.3713	1.4045
U.K.*	1.8535	1.7680

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/11/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.4%	–4.8%

depressed rural areas to booming cities. The Oil Patch—Texas, Louisiana and Oklahoma—has been battered by sagging energy prices and acres of empty office space. At the same time, a revitalization is taking place in many cities located in the Southeastern coastal states, most notably in Georgia, the Carolinas and Florida.

In the Oil Patch, Louisiana has suffered the most damage with its unemployment rate standing at 10.9 percent in December of last year—the second highest rate in the country. On the other hand, Atlanta, Georgia and Raleigh, North Carolina are among the fastest growing cities nationwide, attracting more financial service-oriented and scientific jobs. Atlanta has expanded its airport, improved its highways and positioned itself as a regional hub for the entire Southeast. The Raleigh-Durham area has also expanded rapidly, building upon its base of well-regarded institutions of higher education and the expanding presence of high-technology firms. And, as has been the case for several years, Florida continues to enjoy healthy growth due to its extensive tourism base, a continued influx of prosperous retirees from the "snowbelt" and a growing electronics industry. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	3/9/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	222.621	− 1.135	+18.225
Loans to Depository Inst.	.690	+ .306	+ .271
Float	.572	− .050	+ .137
Total Reserve Bank Credit	238.176	− 1.187	+16.239
Treasury Deposits with Federal Reserve Banks	2.951	+ .030	− .440
Currency in Circulation	224.799	− 1.056	+17.566
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	224.689	+ 2.212	+56.725
	3/9/88		
Member Bank Reserves:			
Total Reserves Held	57.187	− .204	+ 1.234
Excess (Deficiency)	.897	− .175	− .064
Net Free Reserves	.615	− .264	− .156
		% Change Since	
Monetary Aggregates †		3 Months Ago* ‡	Year Ago**
M1 (2/29/88)	755.1	+ 3.8	+ 3.9
M2 (2/29/88)	2,947.5	+ 6.9	+ 4.1
M3 (2/29/88)	3,722.4	+ 6.7	+ 5.5
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

† Seasonally adjusted.
‡ Four-week moving average.
* Seasonally adjusted annual rate.
** Based on monthly data.

New York Money Market

Offering Rates 3/11/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.72%	5.84%	6.25%
* Federal Agencies	6.40	6.40	6.42
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.67	6.97	7.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.63	6.75	7.05

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.45%	Apr.	6.48%
15- 29 days	6.45	May	6.48
30- 59 days	6.50	Jun.	6.50
60- 89 days	6.55	Jul.	6.53
90-179 days	6.55	Aug.	6.55
180-239 days	6.50	Sep.	6.55
240-270 days	6.50		

‡Industrial Paper—Prime			
30- 89 days	6.57%	†Federal Funds	
90-120 days	6.59	Effective Rate	6.55%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,604	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,878	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.5	4.3	1.5
Change in Consumer Prices*	Jan '88	3.6%	2.4%	8.4%
Change in Producer Prices*	Feb '88n	− 2.4%	4.8%	2.4%
Civilian Employment (Thousands of Persons) †	Feb '88n	114,409	114,129	111,344
Unemployment as % of Civilian Labor Force †	Feb '88n	5.7%	5.8%	6.6%
Personal Income*	Jan '88	$ 3,879	$ 3,866	$ 3,632
Leading Indicators Composite Index (1967=100) †	Jan '88n	190.2	191.3r	185.5
Industrial Production Index (1977=100) †	Jan '88	133.8	133.6	126.2
Net Change in Consumer Installment Credit †	Jan '88n	$ 5.42	$ 3.98r	$ 0.79
U.S. Merchandise Trade Balance	Dec '87	−$ 12.20	−$ 13.22	−$ 10.66
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$374.23
Private Housing Starts (Thousands of Units)*	Jan '88	1,377	1,404	1,804
New Construction Expenditures*	Jan '88n	$ 395.2	$ 406.7r	$ 384.7
Total Business Inventories †	Dec '87	$ 701.9	$ 696.4	$ 652.6
Total Business Sales †	Dec '87	$ 466.6	$ 460.6	$ 443.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Advisor

Merger & Acquisition Expertise

EAC USA
U.S. subsidiary of
EAC, Inc.
has acquired
Baumfolder, Inc.

Manufacturers Hanover Trust Company acted as exclusive advisor to EAC USA in this transaction and assisted in the negotiations.

Ellesse USA Inc.
a subsidiary of
Ellesse Int'l. S.p.A.
has been sold to
Reebok International Ltd.

Manufacturers Hanover Trust Company acted as exclusive financial advisor to Ellesse Int'l. S.p.A. in this transaction.

PRC Management, Inc.
has acquired
Metropolitan Savings Association

Manufacturers Hanover Trust Company initiated this transaction and acted as exclusive advisor to PRC Management.

Soros Associates
has been acquired by
Snamprogetti USA Inc.
a subsidiary of
Snamprogetti S.p.A. and ENI Group

Manufacturers Hanover Trust Company acted as exclusive advisor to Soros Associates and assisted in the negotiations.

Brown Jordan Furniture
a subsidiary of
Brown Jordan Company Limited Partnership
a partnership organized by
Integrated Resources
has been sold to
Chicago Pacific Corp.

Manufacturers Hanover Trust Company acted as exclusive financial advisor to Integrated Resources and Brown Jordan Company Limited Partnership in this transaction.

American Lantern
a subsidiary of
Brown Jordan Company Limited Partnership
a partnership organized by
Integrated Resources
has been sold to
First Chicago Venture Capital Corp.

Manufacturers Hanover Trust Company acted as exclusive financial advisor to Integrated Resources and Brown Jordan Company Limited Partnership in this transaction.

The Investment Banking Group

MANUFACTURERS HANOVER
Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

```
463        5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATICN
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014
```

Financial Digest

6/7/88

B 5350-2

MANUFACTURERS
HANOVER

Financial Digest

Volume XXV, Number 7

Monday, March 28, 1988

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Progress on the Trade Front

With the announcement that the January merchandise trade deficit was somewhat smaller than expected, the financial markets were able to breathe a collective sigh of relief, thankful that another month had passed in which this now closely watched statistic contained few unpleasant surprises. Although the global trade gap did widen slightly compared with the December level and exports fell by ten percent, these developments were largely shrugged off by the markets, which focused instead on the diminished red ink totals with Western Europe and Japan.

The reason for looking at the brighter side of things this time around is straightforward. Narrower U.S. trade deficits with these areas suggest that the dollar's three-year slide against the Continental currencies and the Japanese yen is finally paying big trade dividends—which, if maintained, could mean that a fair degree of dollar stability is not too far away. By itself, this would be a big plus for both lower inflation and interest rates. But, before too much optimism sets in, it should be pointed out that dollar stability will be selective. The widening trade deficits with the newly industrializing countries of East Asia (NICs), as well as Canada, makes further dollar depreciation against such currencies as the New Taiwan dollar and Korean won a good bet if these trade imbalances are to be corrected.

On the surface, the global trade deficit in January seems to be a setback. After two straight months in which the deficit receded, the red-ink total widened to $12.4 billion in January, up from $12.2 billion in December. This was due to a ten percent month-over-month drop in exports, largely aircraft and agricultural commodities, which was only partially offset by a six percent dip in imports. But this reversal could be temporary. For one thing, January is usually a poor exporting month, especially for agricultural products. Although overseas shipments this past January eased by ten percent—the largest monthly percentage decline since a better than 9½ percent drop in January 1987—the fact is that it has been 13 years since the value of export shipments in January was higher than in December.

For another, whereas imports have recorded an average monthly increase of four percent in January compared with December levels since 1980, this time around they dropped six percent, probably a good sign that our voracious appetite for imports is diminishing. Finally, the deficit in manufactured goods—the heart of the trade problem—dipped to $11.7 billion in January, or $1 billion less than in December.

Improvement With Europe and Japan

Although convincing progress has been made in improving the overall U.S. trade accounts, the gains have been particularly striking with Western Europe and Japan. With Western Europe, the deficit dipped to $1.3 billion in January, down from $1.8 billion in January 1987 and well below the more than $3 billion level of January 1986. This partially stems from the emergence of a U.S. trade surplus with the United Kingdom in January, the first monthly black ink total with that country in nearly three years. But it's not only the U.K. with which our trade has improved; if you exclude the deficit with Germany, U.S. trade with the rest of Western Europe was nearly in balance in January.

So, too, the trade deficit with Japan is finally receding. The red ink total with this country dipped to $3.9 billion in January, about $1 billion less than in December, largely due to a sizable downturn in Japanese vehicle exports to the United States. At this level, the bilateral deficit with Japan comprised a shade more than 30 percent of the U.S. trade deficit, down from a 37 percent share in January 1987.

The improved trade performance with Western Europe and Japan should spell better news for the dollar, which might have touched bottom against the Continental currencies and the Japanese yen at the end of last year. Since then, despite widespread predictions to the contrary, the dollar has actually appreciated by about 7½ percent against the Deutschemark and by some five percent versus the yen. To be sure, the dollar's upside potential has to be limited if the trade gains of recent months are not to be reversed, but it may well have stabilized for now especially when you consider that a

Manufacturers
Hanover
Economics
Department
17/270

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue New York NY 10017

seasonal narrowing of the trade deficit should occur in coming months.

Deterioration With the NICs

If the focus of the trade problem is shifting away from Western Europe and Japan, it is landing squarely in the lap of East Asia, and to a lesser extent, Canada. The trade deficit with the four East Asian NICs—Taiwan, Korea, Hong Kong and Singapore—has ballooned in recent years, as the U.S. appetite for such products as automobiles and pianos from Korea, office equipment from Singapore and textiles from Hong Kong and Taiwan expanded rapidly. The NICs accounted for nearly one quarter of the trade deficit in January, up from one fifth for all of last year, and there does not appear to be any quick fix in sight.

With the U.S. absorbing nearly 50 percent of Taiwan's exports and about 40 percent of Korea's, the U.S. share is simply too big to be reduced quickly without causing significant economic dislocations in these countries. What is more, Taiwan and Korea take pride in their growing global trade surpluses, viewing them as a prerequisite for economic security in the former, and indicative of economic maturity in the latter.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/88)	183,054	+ 347	+ 14,538
New York City (3/16/88)	38,656	+ 612	+ 2,484
Commercial Paper (3/16/88)	394,569	+ 4,610	+ 55,297

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/88)	291,713	− 1,163	− 938
New York City (3/16/88)	55,150	+ 17	− 9,587

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/88)	865,431	− 3,511	+28,708
New York City (3/16/88)	169,491	− 86	−34,697

Financial Markets

	Friday 3/25/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.84%	+ .04	+ .09
180-Day Bills†	6.25	+ .18	+ .42
Longest Bills†	6.76	+ .16	+ .78
Recent Issues:			
$7\frac{3}{8}$s 3/31/90 (When Issued)	7.36	NA	
$7\frac{7}{8}$s 3/31/92 (When Issued)	7.82	NA	
$8\frac{1}{8}$s 2/15/98	8.45	+ .10	
$8\frac{7}{8}$s 8/15/17	8.67	+ .06	
Municipals:			
Bond Buyer—20 Bond Index* (3/24/88)	7.89%	+ .14	+ 1.28
Blue List Total ($ Million)	$1,163	− $ 166	−$1,375
30-Day Visible Supply ($ Million)	$1,519	− $1,389	−$3,135
Total	$2,682	− $1,555	−$4,510
Corporates:			
Moody's Aa Composite (3/24/88)	9.69%	+ .14	+ .85
30-Day Visible Supply ($ Million)	$1,925	− $ 143	−$1,034
Stocks:			
Dow-Jones Averages:			
Industrials	1,978.95	− 108.42	−279.71
Transportation	860.96	− 18.22	− 74.36
Utilities	173.07	− 7.64	− 43.48
65 Stocks	749.35	− 32.88	−106.19
N.Y.S.E. Composite Index	146.58	− 6.07	− 18.73
N.Y.S.E. Avg. Daily Vol. for Week (000's)	158,092	− 17,608	−12,390

*34% Taxable equivalent 11.95%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/25/88	Week Ago
Overnight	6.42%	6.31%
1 month	6.69	6.63
3 month	6.75	6.69
6 month	7.00	6.88
1 year	7.38	7.25

EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/25/88)	Currency Per U.S. $	Week Ago
Canada	1.2430	1.2488
France	5.7040	5.7480
Germany	1.6800	1.6920
Italy	1244.00	1253.00
Japan	125.85	128.37
Mexico	2273.00	2273.00
Switzerland	1.3909	1.4020
U.K.*	1.8292	1.8253

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/25/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	−0.3%	−3.0%

But, however reluctant the NICs may be to alter either trade policies or exchange rates, change is on the way. Due to persistent U.S. prodding, not to mention rising protectionist sentiment in the United States, both Taiwan and Korea have shown greater flexibility on the exchange rate issue. They have loosened the formerly tight linkage between their currencies and the dollar and, in so doing, set the stage for a good-sized appreciation of their currencies. Since the end of 1986, the New Taiwan dollar has advanced by nearly 20 percent against the U.S. dollar, while the Korean won has risen by some 13 percent. And, there is more to come; with Taiwan and Korea continuing to post large, and growing current account surpluses, maintenance of even present exchange rates is simply incompatible with the goal of narrowing existing global payments imbalances.

Finally, our neighbor to the north will not escape the full court press now underway to bring about a smaller U.S. trade deficit. The Canadian currency is trading at a four-year high against the dollar, and has recently moved higher still—a trend which was given an added boost when it was announced that the U.S. trade deficit with Canada widened in January. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	3/23/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	222.022	– 2.010	+18.914
Loans to Depository Inst.	2.537	+ 1.226	+ 1.984
Float	.455	–0–	+ .082
Total Reserve Bank Credit	239.723	– .982	+18.627
Treasury Deposits with Federal Reserve Banks	2.676	– .633	– .189
Currency in Circulation	225.695	– .010	+18.396
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.159	- 1.841	+57.195
	3/16/88		
Member Bank Reserves:			
Total Reserves Held	57.852	+ .615	+ 1.989
Excess (Deficiency)	.985	+ .006	+ .004
Net Free Reserves	.746	+ .049	+ .030
		% Change Since	
Monetary Aggregates †		3 Months Ago*‡	Year Ago**
M1 (3/14/88)	760.5	+ 3.9	+ 3.9
M2 (3/14/88)	2,965.5	+ 7.6	+ 4.2
M3 (3/14/88)	3,740.3	+ 7.5	+ 5.5
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

† Seasonally adjusted.
‡ Four-week moving average.
* Seasonally adjusted annual rate.
** Based on monthly data.

New York Money Market

Offering Rates 3/25/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.77%	6.02%	6.37%
* Federal Agencies	6.45	6.50	6.60
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.74	6.82	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.62	6.85	7.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.40%	Apr.	6.50%
15- 29 days	6.48	May	6.50
30- 59 days	6.55	Jun.	6.53
60- 89 days	6.58	Jul.	6.55
90-179 days	6.62	Aug.	6.60
180-239 days	6.50	Sep.	6.60
240-270 days	6.50		

‡Industrial Paper—Prime			
30- 89 days	6.58%	†Federal Funds Effective Rate	6.60%
90-120 days	6.63		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,607 r	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,881 r	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.8 r	4.3	1.5
Change in Consumer Prices*	Feb '88n	2.4%	3.6%	4.8%
Change in Producer Prices*	Feb '88	– 2.4%	4.8%	2.4%
Civilian Employment (Thousands of Persons)†	Feb '88	114,409	114,129	111,344
Unemployment as % of Civilian Labor Force†	Feb '88	5.7%	5.8%	6.6%
Personal Income*	Feb '88n	$ 3,914	$ 3,880	$ 3,671
Leading Indicators Composite Index (1967=100)†	Jan '88	190.2	191.3	185.5
Industrial Production Index (1977=100) †	Feb '88n	134.4	134.2 r	127.1
Net Change in Consumer Installment Credit †	Jan '88	$ 5.42	$ 3.98	$ 0.79
U.S. Merchandise Trade Balance	Jan '88n	–$ 12.44	–$ 12.20	–$ 11.94
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$374.23
Private Housing Starts (Thousands of Units)*	Feb '88n	1,494	1,372r	1,809
New Construction Expenditures*	Jan '88	$ 395.2	$ 406.8	$ 384.7
Total Business Inventories †	Jan '88n	$ 705.9	$ 702.9r	$ 659.2r
Total Business Sales †	Jan '88n	$ 462.8	$ 466.1r	$ 425.0r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Innovative

Don't you deserve a PERC℠?

Introducing Personal Executive Revolving Credit.

A successful business depends on strong business leaders.

No one understands that better than Manufacturers Hanover.

That's why we created PERC–a personal cash reserve to satisfy the singular needs of business leaders. PERC gives you instant access to unsecured, revolving credit for amounts of $25,100 up to $100,000 –simply by writing a check. Rates are competitive and terms are flexible, offering you a new level of financial strength and security.

If you're ready for personal financing as responsive as business financing, you're ready for a PERC. Applications are available at any branch office, or phone 516-934-3600 or 212-818-3600.

© 1988 Manufacturers Hanover. All Rights Reserved.
Member FDIC   Equal Opportunity Lender

Business Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

Financial Digest

5/6/88 B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 8

Monday, April 11, 1988

Analysis of Business Trends Plus Selected Financial Indicators

The Outlook For Monetary Policy

Despite the virtual certainty that the pace of business slowed decidedly in the first quarter, the financial markets have grown concerned that the economy remains strong enough to boost both the inflation rate and interest rates. According to this view, the days of an accommodative Federal Reserve monetary policy are numbered as well, for the combination of rapid economic growth and rising inflation may have prompted the central bank to move the policy dial from ease back to restraint. In this environment, the announcement that the nation's unemployment rate dipped to a nine-year low in March while payroll employment increased by better than 260,000 further fanned market jitters. The bond market extended the selloff which got underway early last month, pushing up long-term Treasury yields by about half a percentage point.

While it is possible to cobble together a case for rapid economic growth and higher inflation rates, the bond market seems to be overlooking some evidence to the contrary. Take, for example, the March employment report. The markets focused almost exclusively on the dip in the unemployment rate to 5.6 percent and another hefty increase in payroll employment—a combination suggesting the specter of a rapidly expanding economy, rising inflation and, of course, a tightening of monetary policy. All but ignored were several less impressive elements of the employment report which tended to at least call into question the view that the economy will soon "overheat", and that the inflation rate will spike higher.

For one thing, manufacturing employment actually fell slightly in March, the first drop in factory jobs since last June. To be sure, while a large part of the decline was attributable to lumber industry layoffs, which could be reversed in the current quarter if homebuilding perks up, the March result is hardly an aberration, but rather the continuation of a trend underway since the end of last year. Employment gains averaged about 12,000 monthly in the first quarter of this year—well below the 61,000 monthly average increase posted in the latter half of 1987.

For another, this trend has tended to put a damper on wages. In the first quarter, average hourly earnings in manufacturing were just a shade higher than in the fourth quarter, and up only two percent over the past year. In light of recent productivity gains, which have been especially pronounced in the industrial sector, labor costs per unit of output are rising only slowly, corralling a key prerequisite for a higher rate of inflation.

Finally, the dip in factory jobs in March, combined with the reported drop in the average workweek, make it a good bet that industrial production remained sluggish last month. Plainly, this is not a favorable sign for an economy which is counting on stronger industrial production to keep it out of recession this year. With output growth slowing, the rapid climb in industry operating rates—which lifted capacity utilization in manufacturing to its highest level in nine years—has also paused, easing the threat of capacity bottlenecks, and higher inflation rates.

Manufacturers Hanover Economics Department 17/270

Tunnel Vision In The Bond Market

While these components of the March employment numbers may be ignored by the bond markets, they should not be by the Federal Reserve. Nor will such other features of the economic environment as the renewed slippage in consumer confidence in March, the subdued pace of consumer spending, the two-month drop in factory orders and the lethargic pace of new construction—not to mention the fact that on the inflation front, too, the perception seems much worse than the reality.

Productivity growth, for example, has outrun wage growth, yet the bond market has begun to fear a wage-driven inflationary spiral. A 3½ percent rise in industrial commodity prices between end-February and end-March has stirred fears of a commodity-driven price spiral yet, overall, industrial

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

commodity prices are no higher now than they were last October. And a softer dollar due to speculative selling pressures in front of the March 31 end of Japan's fiscal year prompted concerns of an import-driven price spiral–despite the fact that the dollar remains well above its yearend 1987 lows (Financial Digest–March 28, 1988) and is now being bolstered by a perception of central bank intervention, along with a rapidly improving trade balance.

The central bank cannot afford to ignore this evidence and suffer the same type of tunnel vision as the bond market. If it does, it runs substantial risks. A switch toward restraint, based upon a misreading of either current business conditions, inflation rate prospects or the perceived vulnerability of the dollar, would not only place this economy's health in jeopardy, but that of the global economy as well.

On the other hand, the likelihood of a more accommodative policy seems remote–despite the fact that money growth remains well-behaved, if not downright sluggish, while short-term business credit demands are

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/88)	183,040	– 98	+ 14,479
New York City (3/30/88)	37,780	– 419	+ 1,899
Commercial Paper (3/30/88)	388,794	– 3,264	+ 52,540

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/88)	291,293	– 1,066	– 1,203
New York City (3/30/88)	55,451	+ 479	– 7,431

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/88)	867,804	+ 100	+32,566
New York City (3/30/88)	172,750	+ 2,551	–33,049

Financial Markets

	Friday 4/8/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.19%	+ .33	+ .21
180-Day Bills†	6.45	+ .16	+ .24
Longest Bills†	6.93	+ .18	+ .41
Recent Issues:			
$7\frac{3}{8}$s 3/31/90	7.43	+ .07	
$7\frac{7}{8}$s 3/31/92	7.88	–0–	
$8\frac{1}{8}$s 2/15/98	8.50	– .03	
$8\frac{7}{8}$s 8/15/17	8.69	– .06	
Municipals:			
Bond Buyer–20 Bond Index* (4/7/88)	7.80%	– .10	+ .53
Blue List Total ($ Million)	$1,023	– $ 42	–$1,655
30-Day Visible Supply ($ Million)	$2,776	+ $106	–$ 618
Total	$3,799	+ $ 64	–$2,273
Corporates:			
Moody's Aa Composite (4/7/88)	9.80%	+ .05	+ 0.88
30-Day Visible Supply ($ Million)	$2,269	+ $320	–$3,854
Stocks:			
Dow-Jones Averages:			
Industrials	2,090.19	+ 102.13	–248.59
Transportation	883.66	+ 20.61	– 66.60
Utilities	176.56	+ 5.09	– 27.78
65 Stocks	781.40	+ 30.53	– 88.73
N.Y.S.E. Composite Index	152.03	+ 5.43	– 13.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	170,886	+ 23,881	– 7,731

*34% Taxable equivalent 11.82%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/8/88	Week Ago
Overnight	6.75%	6.48%
1 month	6.94	6.75
3 month	7.00	6.88
6 month	7.19	7.13
1 year	7.63	7.50

EURODOLLAR BONDS Average Yield	Friday 4/8/88	Week Ago
Medium Term (5 yrs.)	9.18%	10.12%
Long Term (10 yrs.)	9.18	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/8/88)	Currency Per U.S. $	Week Ago
Canada	1.2465	1.2347
France	5.6910	5.6190
Germany	1.6745	1.6578
Italy	1242.40	1229.80
Japan	125.58	124.23
Mexico	2273.00	2273.00
Switzerland	1.3850	1.3650
U.K.*	1.8713	1.8830

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/8/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.9%	–2.8%

lackluster at best. Until the extent of the business slowdown becomes evident, any easing of monetary policy also runs the risk of fanning today's inflation expectations, and undermining the dollar overseas.

Has The Fed Tightened?

In this environment, the best policy approach might be to stand pat for now, and await more convincing evidence as to the direction of both the economy and the rate of inflation. Although speculation is rampant among those who follow closely every wiggle in the Federal funds rate that policy has already been firmed, it may be too early to tell.

This is because it's tax season, and around this time of year Treasury balances swell and bank reserves diminish as April 15, the deadline for the payment of individual income taxes, approaches. A rise in short-term interest rates at this juncture, which could eventually prompt a boost in the prime rate, could have more to do with the calendar, than with deliberate central bank actions. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/6/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	224.811	+ 2.087	+17.850
Loans to Depository Inst.	3.169	+ .704	+ 2.578
Float	1.744	+ 1.243	+ 1.075
Total Reserve Bank Credit	244.557	+ 3.989	+19.125
Treasury Deposits with Federal Reserve Banks	3.554	+ .986	− .369
Currency in Circulation	227.560	+ 1.852	+18.684
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	228.237	+ 2.788	+49.994
	4/6/88		
Member Bank Reserves:			
Total Reserves Held	58.394	+ .578	+ 1.638
Excess (Deficiency)	.884	− .033	+ .205
Net Free Reserves	.561	− .117	+ .275
		% Change Since‡ 3 Months Ago*	% Change Since‡ Year Ago
Monetary Aggregates †			
M1 (3/28/88)	768.3	+ 6.6	+ 3.8
M2 (3/28/88)	2,979.5	+ 9.3	+ 4.7
M3 (3/28/88)	3,746.7	+ 8.3	+ 5.8
Domestic Nonfinancial Debt (4th Q'87)	8,361.5	+ 10.2	+ 10.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/8/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.02%	6.18%	6.53%
* Federal Agencies	6.64	6.66	6.75
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.36	6.67	6.97
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.90	7.10	7.40

‡Finance Company Paper—Prime	
5- 14 days	6.70%
15- 29 days	6.70
30- 59 days	6.73
60- 89 days	6.75
90-179 days	6.75
180-239 days	6.65
240-270 days	6.65

‡* Bankers' Acceptances	
May	6.70%
Jun.	6.71
Jul.	6.73
Aug.	6.78
Sep.	6.80
Oct.	6.80

‡Industrial Paper—Prime	
30- 89 days	6.75%
90-120 days	6.80

†Federal Funds Effective Rate 6.90%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,607	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,881	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.8	4.3	1.5
Change in Consumer Prices*	Feb '88	2.4%	3.6%	4.8%
Change in Producer Prices*	Feb '88	− 2.4%	4.8%	2.4%
Civilian Employment (Thousands of Persons)†	Mar '88n	114,103	114,409	111,455
Unemployment as % of Civilian Labor Force†	Mar '88n	5.6%	5.7%	6.5%
Personal Income*	Feb '88	$ 3,914	$ 3,880	$ 3,671
Leading Indicators Composite Index (1967=100)†	Feb '88n	190.6	188.9r	186.0
Industrial Production Index (1977=100) †	Feb '88	134.4	134.2	127.1
Net Change in Consumer Installment Credit †	Feb '88n	$ 5.30	$ 6.24r	$ 1.01
U.S. Merchandise Trade Balance	Jan '88	−$ 12.44	−$ 12.20	−$ 11.94
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$374.23
Private Housing Starts (Thousands of Units)*	Feb '88	1,494	1,372	1,809
New Construction Expenditures*	Feb '88n	$ 391.5	$ 392.5r	$ 401.6
Total Business Inventories †	Jan '88	$ 705.9	$ 702.9	$ 659.2
Total Business Sales †	Jan '88	$ 462.8	$ 466.1	$ 425.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Vitality

"...We look for stronger operating earnings in 1988 based on three fundamentals—further success in managing our businesses for higher returns, lower operating expenses and a continued improvement in credit quality..."

Extracted from a letter to shareholders by the Chairman, John F. McGillicuddy.

"...Restoring common shareholders' equity to four percent, the ratio prior to the reserving action, is our overriding priority. We intend largely to accomplish this objective by the end of 1988 through a combination of gains from the sale of undervalued assets, the realization of tax benefits resulting from the addition to the reserve, and stronger operating earnings...

Asset Sales

"During 1987, as part of the equity restoration process, we realized $150 million pre-tax from the sale of undervalued assets... We continue to have substantial amounts of undervalued assets on our books. By selling a portion of them, we anticipate pre-tax gains in 1988 of $400 million—$230 million after-tax, but before tax benefits relating to the reserve decision.

Tax Benefits

"In 1987, the full impact of the reserving action was mitigated by the ability to apply $277 million in tax benefits. In 1988, we will have the capacity arising from operating earnings and gains from asset sales to apply approximately $200 million of the remaining $342 million of tax benefits relating to the reserve action.

Operating Earnings

"While tax benefits and special gains will be essential to rebuilding equity in 1988, it is the renewed strength of our basic businesses that will make the major difference this year and in the years ahead.

"We look for stronger operating earnings in 1988 based on three fundamentals—further success in managing our businesses for higher returns, lower operating expenses and a continued improvement in credit quality as was evident in the fourth quarter of 1987.

"Manufacturers Hanover has strong franchises in place within profitable segments of three key markets.

"Also in place is an effective profitability discipline to make these businesses pay off in higher returns. It proceeds from the logic that managing for higher returns dictates that we exit, sell or downsize businesses that no longer meet our targets while directing additional resources to the most profitable segments of our markets. The objective is clear—to enhance shareholder value.

"Managing for higher returns formed the basis of the restructuring and other special charges we took in the fourth quarter amounting to $117 million. This primarily related to the exiting of businesses, a further sharpening of focus in selected markets, the closing of domestic offices and a planned staff reduction of approximately 2,500. With this reduction, total staff will have been scaled down by approximately 5,400 positions, or 17 percent, since the beginning of 1986.

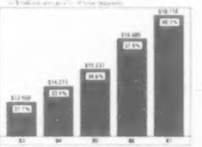
"The restructuring portion of the fourth quarter charges amounted to $82 million, but will result in an earnings benefit going forward of approximately $95 million a year.

"Improved results were largely masked in 1987 by the reserving action in June and the fourth quarter restructuring charge. Progress was broadly based. For example, trading revenues increased 47 percent to $161 million. Earnings from consumer banking increased 22 percent to $116 million. Net income for the Corporate Banking Sector totalled $166 million, up from $90 million in 1986.

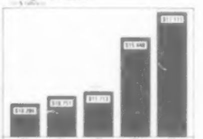
"Also masked was our institution's continued success in controlling overhead. Without the restructuring and other special charges, operating expenses would have been up only 3.3 percent for the year—among the best performances for a money center bank. Expense control remains an imperative. We expect operating expenses in 1988 to be lower than last year's level.

"In summary, with a number of major restructurings behind us, the real value of our business franchises will begin to be reflected in stronger operating earnings..."

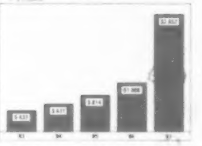
1 Average Core Deposits



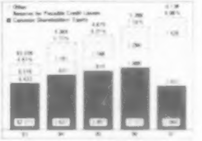
2 Average Liquid Assets



3 Reserve For Possible Credit Losses



4 Primary Capital



MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

403 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

4/26/88

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 9

Monday, April 25, 1988

Analysis of Business Trends Plus Selected Financial Indicators

"Fine Tuning" At The Fed?

If there is one sport within the financial community with nearly universal sidelines participation, it is the Federal Reserve policy guessing game. The rules are few and the required equipment is minimal, except perhaps for a daily newspaper and an opinion; the object of the game is essentially to see who can be the first to spot a shift in the stance of the central bank. This is usually accomplished by attaching policy significance to even the slightest wiggle in the Federal funds rate, or to changes in bank reserves and discount window borrowings. Even the Fed encourages participation in its own way by making public its policy intentions only well after the fact.

The best time to play this game is when both the economic and the inflation rate statistics are mixed. This is because with the direction of the economy and prices less than clear-cut, each new government number has the capability of unleashing a flurry of contradictory speculation as to what the Fed is, should, or will be doing. In recent weeks, activity in this sport has reached new heights. This is partially the result of the usually inconclusive barrage of business statistics, but it also stems from a growing belief that the Fed is attempting to "fine tune" monetary policy – in other words, frequently altering policy in anticipation of what may be emerging trends in the direction of the economy, inflation, or both.

Manufacturers Hanover Economics Department 17/270

In this environment, the government's often revised, often incomplete monthly business statistics assume an importance far beyond their reliability. Whereas in the early 1980s, the markets focused on money growth and whether or not it was within the announced target ranges, now they zero in on such statistics as payroll employment, durable goods orders and the trade balance, scrutinizing them closely for clues as to the health of the economy and, based upon their diagnosis, forming snap judgments as to the presumed Fed response.

Since so many economic statistics are churned out by Washington, one obvious casualty is market stability. Depending upon the perceived importance of the statistic, market sentiment – not to mention bond and stock prices – get whipsawed around not only on a month-to-month basis, but virtually on a day-to-day, if not hour-to-hour basis. The markets plainly seek to stay one step ahead of the Fed – which is believed to be trying to stay one step ahead of the economy and the financial markets.

Bond Market Blues

Take, for example, the recent uptick in the Federal funds rate. During the two week period ending April 13, the funds rate – the cost of overnight money which banks lend to one another, and which is directly influenced by central bank policy actions – averaged about 6.80 percent. Since this was about 30 basis points higher than the mid-March average, and it came on the heels of a 260,000 person increase in payroll employment in March, the bond market concluded that the Fed was worried about the strength of the economy, had tightened monetary policy, and would soon be tightening some more. This view gained added credence when it was reported that producer prices rose 0.6 percent in March, month over month, and a hefty widening of the merchandise trade deficit in February touched off a dollar sell-off. Such evidence to the contrary as the easing of the number of factory jobs in March, the virtual flattening of industrial production last month and the faltering of automobile sales in early April was shrugged off; bond prices tumbled and long-term yields spiked higher.

But just two months earlier, in early February, the financial markets were convinced of the opposite. At that time, a large pileup of inventories in the fourth quarter of last year had the markets sensing hefty production and employment cutbacks right around the corner and expectations ran high that a decided easing of monetary policy was imminent. Long-term bonds appeared to be a good bet, since bond prices moved higher and yields lower. This sentiment lasted until early March, when a reported surge in February payroll employment diminished recession fears.

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue New York NY 10017

To be sure, at least one Fed governor has stated that the Fed should more closely watch such barometers of market sentiment as the yield curve and trends in the dollar's external value. This does not mean, however, that monetary policy is as fickle as bond or foreign exchange market sentiment. While these may act as policy guides, they are by no means the final arbiters of policy decisions which remain based on an eclectic blend of economic, inflation and exchange rate considerations. Whether the central bank is "fine tuning" as much as some believe remains a matter of debate. But, with mechanical money supply targeting in disfavor, Fed governors have to read the tea leaves, too, and, if the outlook changes, so, too, should policy.

Monetary Policy Looks Stable

At the moment, monetary policy remains in a holding pattern, despite the gyrations in the financial markets in anticipation of the next policy move. Last week, for example, the average Federal funds rate stood approximately where it did at the end of last year. This appears to be consistent with a belief among Fed policymakers that while the threat of recession may have diminished,

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/88)	180,397	– 1,162	+ 11,483
New York City (4/13/88)	37,816	+ 205	+ 2,000
Commercial Paper (4/13/88)	390,558	+ 3,293	+ 49,222

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/88)	297,935	+ 4,357	+ 7,549
New York City (4/13/88)	55,564	– 1,357	– 6,994

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/88)	876,081	+ 3,977	+36,582
New York City (4/13/88)	172,410	– 1,519	–35,124

Financial Markets

	Friday 4/22/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.97%	– .07	+ .08
180-Day Bills†	6.50	–0–	+ .26
Longest Bills†	6.98	– .05	+ .22
Recent Issues:			
$7^3/8$s 3/31/90	7.58	+ .01	
$7^7/8$s 3/31/92	8.07	+ .03	
$8^1/8$s 2/15/98	8.76	+ .03	
$8^7/8$s 8/15/17	8.99	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (4/21/88)	7.87%	+ .06	+ .05
Blue List Total ($ Million)	$1,156	+ $ 84	–$ 675
30-Day Visible Supply ($ Million)	$2,175	+ $592	–$1,204
Total	$3,331	+ $676	–$1,879
Corporates:			
Moody's Aa Composite (4/21/88)	9.89%	+ .06	+ .62
30-Day Visible Supply ($ Million)	$3,523	+ $ 99	–$2,486
Stocks:			
Dow-Jones Averages:			
Industrials	2,015.09	+ 1.16	–220.28
Transportation	847.67	+ 14.34	– 65.80
Utilities	169.87	+ .71	– 29.46
65 Stocks	752.07	+ 4.18	– 83.10
N.Y.S.E. Composite Index	147.03	+ .03	– 12.34
N.Y.S.E. Avg. Daily Vol. for Week (000's)	155,156	– 29,616	–18,837

*34% Taxable equivalent 11.92%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/22/88	Week Ago
Overnight	6.63%	6.75%
1 month	7.00	6.88
3 month	7.19	7.06
6 month	7.38	7.25
1 year	7.75	7.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/22/88)	Currency Per U.S. $	Week Ago
Canada	1.2346	1.2330
France	5.6770	5.6490
Germany	1.6725	1.6620
Italy	1242.50	1234.50
Japan	124.70	123.81
Mexico	2273.00	2273.00
Switzerland	1.3823	1.3722
U.K.*	1.8890	1.8895

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (4/22/88) (Adjusted for Inflation)	+0.8%	–6.7%

such weak spots in the economic fabric as a good chunk of the Texas banking system, the volatile stock market and the debt problems of the developing countries cannot yet be ignored.

Having said all this, it's now our turn to play the policy guessing game. While the bond markets seem to believe that higher price inflation and recent dollar weakness almost guarantee a tightening of the credit screws, this line of reasoning may be premature, at least. For one thing, as the industrial production numbers suggest, the economy is a long way from overheating. For another, inflation concerns have been exaggerated for at least a year now and, as another Fed governor recently stated, the 0.6 percent increase in producer prices in March could well be an aberration.

Finally, the slide of the dollar in the wake of the widening of the trade deficit has apparently been stemmed by sizable direct central bank intervention, rather than by greater policy restraint. This costly operation indicates perhaps more than anything else that the Fed is not yet inclined to firm policy—bond market gyrations notwithstanding. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/20/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	228.748	+ .856	+16.160
Loans to Depository Inst.	3.672	+ .107	+ 2.453
Float	– .103	– .661	– 1.615
Total Reserve Bank Credit	247.810	+ .454	+15.745
Treasury Deposits with Federal Reserve Banks	3.662	+ .206	– 1.096
Currency in Circulation	228.766	– .131	+18.486
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	229.118	+ 2.354	+53.763
	4/20/88		
Member Bank Reserves:			
Total Reserves Held	60.689	+ 2.272	+ 1.258
Excess (Deficiency)	.798	– .095	– .006
Net Free Reserves	.457	– .113	+ .342

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (4/11/88)	766.2	+ 7.6	+ 4.1
M2 (4/11/88)	2,991.2	+ 10.3	+ 5.1
M3 (4/11/88)	3,756.6	+ 9.0	+ 6.0
Domestic Nonfinancial Debt (4th Q'87)	8,361.5	+ 10.2	+ 10.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/22/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.82%	6.22%	6.58%
* Federal Agencies	6.68	6.82	6.85
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.67	7.12	7.27
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.05	7.15	7.40

‡ Finance Company Paper—Prime	
5- 14 days	6.60%
15- 29 days	6.80
30- 59 days	6.83
60- 89 days	6.83
90-179 days	6.81
180-239 days	6.75
240-270 days	6.75

‡* Bankers' Acceptances	
May	6.75%
Jun.	6.77
Jul.	6.80
Aug.	6.85
Sep.	6.90
Oct.	6.90

‡ Industrial Paper—Prime	
30- 89 days	6.86%
90-120 days	6.92

† Federal Funds Effective Rate 6.85%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,607	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,881	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.8	4.3	1.5
Change in Consumer Prices*	Mar '88n	6.0%	2.4%	4.8%
Change in Producer Prices*	Mar '88n	7.2%	– 2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Mar '88	114,103	114,409	111,455
Unemployment as % of Civilian Labor Force †	Mar '88	5.6%	5.7%	6.5%
Personal Income*	Feb '88	$ 3,914	$ 3,880	$ 3,671
Leading Indicators Composite Index (1967=100) †	Feb '88	190.6	188.9	186.0
Industrial Production Index (1977=100) †	Mar '88n	134.6	134.4	127.4
Net Change in Consumer Installment Credit †	Feb '88	$ 5.30	$ 6.24	$ 2.65r
U.S. Merchandise Trade Balance	Feb '88n	–$ 13.83	–$ 12.44	–$ 14.36
Plant and Equipment Expenditures*	2nd Q'88n	$427.09(a)	$422.75(a)	$377.65
Private Housing Starts (Thousands of Units)*	Mar '88n	1,543	1,514r	1,723
New Construction Expenditures*	Feb '88	$ 391.5	$ 392.5	$ 401.6
Total Business Inventories †	Feb '88n	$ 715.9	$ 715.0r	$ 665.7r
Total Business Sales †	Feb '88n	$ 468.3	$ 465.7r	$ 442.4r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Market Access

Money Market Placing Power

Bergen Bank Corporation

$500,000,000
Commercial Paper Program

Formosa Plastics Corporation, U.S.A.

$100,000,000
Eurocommercial Paper Programme

Fireman's Fund Mortgage Corporation

$650,000,000
Eurocommercial Paper Programme

Lomas Bankers Corp.

$200,000,000
Commercial Paper Program

Yamaha Motor International Finance of BV

$200,000,000
Eurocommercial Paper Programme

Yamaha Motor Finance Corporation, U.S.A.

$200,000,000
Commercial Paper Programme

LEP Group PLC

£100,000,000
Eurocommercial Paper Programme and Sterling Commercial Paper Programme

The Investment Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

5/12/88 B5350-2

MANUFACTURERS
HANOVER

Financial Digest

Volume XXV, Number 10
Monday, May 9, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

The Economy Is Weaker Than It Looks

On the surface, at least, it would appear as though the U.S. economy has emerged from the stock market crash of last October in pretty good shape. The top-line gross national product advanced by 2.3 percent at an annual rate in the first quarter, following increases averaging 4½ percent during the previous two quarters. What is more, if one considers only actual sales to final consumers, exclusive of government farm subsidy payments, the first quarter's rise becomes a hefty 4.3 percent, compared with a decline in last year's fourth quarter.

Adding further to the belief that the worst is over are data dealing with employment and personal incomes. Apparently responding more to the size of their order books than to the doings down on Wall Street, businessmen added 331,000 workers per month to their payrolls during the first quarter, compared with an average of 254,000 during the preceding nine months. This pushed up personal incomes by 1.4 percent in the first quarter—not far from the average quarterly rise of 1.6 percent during the previous three quarters. Since consumer spending accounts for about two-thirds of GNP, such increases in employment and incomes would seem to point to further economic strength in the months ahead.

As for the stock market itself, the dark days of last October now seem to be only a bad dream. Encouraged, no doubt, by the market's runup of about 16 percent from its October 19 closing lows, as well as the crash's apparent limited impact on outlays by both consumers and businessmen, economists have come up with a number of reasons to dismiss the crash as a negative factor in the outlook, among them, the fact that the market ran up so fast earlier in 1987 that few had time to enjoy their paper gains; most still have a profit on stocks they've held onto; and relatively few people own stocks directly, anyway.

Consumers Are Not Big Spenders

However, beneath the veneer of these otherwise shiny statistics lie a few rough spots. For one thing, the consumer isn't as much of a big spender as the first quarter's data make him appear. True, people's purchases of hardgoods jumped by $12 billion, or at an annual rate of nearly 13 percent, in the first quarter from the fourth, after adjusting for inflation. But these outlays are still below levels reached a year and a half earlier. And there was no increase at all in real softgoods expenditures in this year's first quarter—meaning that consumer purchases of hard and softgoods combined remain $15 billion, or more than one percent lower than 18 months ago.

Two other key statistics aren't all that bright, either. People spent less on residential construction last quarter than they did back in second-quarter 1986, in real terms. And since the first quarter's decline was at an annual rate of only nine percent on the heels of a 7½ percent *rise* in the fourth, while housing starts have plunged by an average annual rate of 18 percent during the last two quarters, it seems reasonable to expect that these outlays will post another decline in the current quarter.

Fewer Buildings; More Inventories

Business spending on structures was weak, too. These outlays fell nearly $2 billion in real terms, and are now below levels first reached back in second-quarter 1979! Then there are inventories. Excluding some rather unusual swings in the farm sector, business inventories still appear to be high—at least if the GNP figures are to be believed. Sales would have to remain pretty vigorous for inventory reductions *not* to drag the current quarter's growth.

Even the trade figures are not as good as they look. For one thing, there was only a modest improvement in the trade deficit, as measured in the GNP accounts. To be sure, the inflation-adjusted trade deficit did shrink by $4 billion in the first quarter, compared with a decline of only $2.7 billion in the fourth. However, imports rose, instead of

270 Park Avenue, New York, NY 10017

falling as most economists had predicted; they have climbed in all but four of the past 20 calendar quarters, leaving the real trade deficit almost as high today as it was at yearend 1985.

Two Bright Spots

One statistic that was undeniably strong was business spending on equipment. In real terms, such outlays went up a whopping $25 billion—the largest quarterly increase on record, and several times the increase expected by most analysts. And, even though a lot of the equipment was not produced in the U.S., but rather, was from overseas, it does not take away from the fact that American business is rapidly becoming more efficient, thus better able to compete both here and abroad.

Another piece of good news can be seen in the inflation rate derived from the GNP accounts. The GNP deflator, or price index, rose at only a 2.4 percent annual rate last quarter, down from the 2.7 percent pace in the previous period—and the fourth quarter in a row in which this index's rate of rise slowed. Of all the measures of economy-wide inflation, this is the most important- and the most accurate—so its slowing should quell

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/20/88)	178,871	+ 1	+ 10,706
New York City (4/27/88)	37,800	– 185	+ 1,845
Commercial Paper (4/27/88)	403,182	+ 5,999	+ 52,513

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/20/88)	297,418	+ 1,445	+ 5,834
New York City (4/27/88)	57,266	+ 282	– 3,852

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/20/88)	880,637	+ 5,528	+29,036
New York City (4/27/88)	175,335	+ 411	–33,902

Financial Markets

	Friday 5/6/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.45%	+ .30	+ .78
180-Day Bills†	6.80	+ .17	+ .71
Longest Bills†	7.28	+ .21	+ .58
Recent Issues:			
$7\frac{5}{8}$s 4/30/90	7.85	+ .17	
$7\frac{7}{8}$s 3/31/92	8.30	+ .14	
$8\frac{1}{8}$s 2/15/98	8.98	+ .36	
$8\frac{7}{8}$s 8/15/17	9.14	+ .05	
Municipals:			
Bond Buyer—20 Bond Index* (5/5/88)	7.84%	+ .07	– .02
Blue List Total ($ Million)	$1,211	– $10	–$ 437
30-Day Visible Supply ($ Million)	$2,127	– $74	–$1,464
Total	$3,338	– $84	–$1,901
Corporates:			
Moody's Aa Composite (5/5/88)	9.97%	+ .07	+ .52
30-Day Visible Supply ($ Million)	$3,090	–0–	–$ 583
Stocks:			
Dow-Jones Averages:			
Industrials	2,007.46	– 24.87	–314.84
Transportation	848.04	+ 6.04	–109.34
Utilities	169.04	– 1.60	– 36.45
65 Stocks	748.76	– 6.18	–120.07
N.Y.S.E. Composite Index	145.88	– 1.99	– 19.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	145,139	+ 4,103	–36,338

*34% Taxable equivalent 11.88%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/6/88	Week Ago
Overnight	6.69%	6.88%
1 month	7.00	7.00
3 month	7.25	7.19
6 month	7.56	7.44
1 year	7.94	7.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/6/88)	Currency Per U.S. $	Week Ago
Canada	1.2342	1.2286
France	5.7200	5.6725
Germany	1.6823	1.6687
Italy	1254.00	1242.70
Japan	124.89	124.65
Mexico	2273.00	2273.00
Switzerland	1.4028	1.3980
U.K.*	1.8630	1.8870

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (5/6/88) (Adjusted for Inflation)	+0.8%	–5.5%

the fears of incipient inflation that have arisen in the bond markets of late.

True, there is some inflation building up in the pipeline. Prices of industrial raw materials—the beginning of the production process—shot up more than 40 percent from the end of August 1986, to the beginning of last October, although they have stabilized since. And at the next stage, the producer, or wholesale level, prices of intermediate materials excluding food and energy have risen quarter by quarter at a progressively faster rate since mid-1986. Even the top-line producer and consumer price indexes showed large increases in March.

Keep in mind, however, that these indexes are based on weights that do not change from one period to the next, whereas the GNP deflator's do. Its weights are based on current consumption patterns—not those of some earlier period. This means that, while prices of some goods may be rising faster than before, people are shunning these goods, in favor of those whose price changes are more moderate. So the actual cost of goods purchased is going up much more slowly than the reading suggested by the various fixed-weight price indexes. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	5/4/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	237.184	+ 8.065	+ 5.621
Loans to Depository Inst.	2.414	+ .380	+ .393
Float	.686	+ .111	+ .374
Total Reserve Bank Credit	256.245	+ 8.871	+ 5.038
Treasury Deposits with Federal Reserve Banks	14.094	+ 9.711	− 8.750
Currency in Circulation	228.667	+ .636	+18.212
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	228.833	+ 2.177	+51.444
	5/4/88		
Member Bank Reserves:			
Total Reserves Held	59.688	− .988	+ 1.555
Excess (Deficiency)	1.215	+ .531	+ .199
Net Free Reserves	.778	+ .435	+ .873
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (4/25/88)	778.0	+ 6.1	+ 3.3
M2 (4/25/88)	2,996.0	+ 9.5	+ 5.0
M3 (4/25/88)	3,763.5	+ 8.5	+ 6.0
Domestic Nonfinancial Debt (4th Q'87)	8,361.5	+ 10.2	+ 10.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/6/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.25%	6.45%	6.82%
* Federal Agencies	6.75	6.85	7.00
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.42	7.23
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.12	7.40	7.80

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.70%	Jun.	6.88%
15- 29 days	6.83	Jul.	6.90
30- 59 days	6.88	Aug.	6.95
60- 89 days	6.90	Sep.	7.03
90-179 days	6.88	Oct.	7.12
180-239 days	6.88	Nov.	7.10
240-270 days	6.88		

‡Industrial Paper—Prime			
30- 89 days	6.89%	†Federal Funds	
90-120 days	6.95	Effective Rate	6.90%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

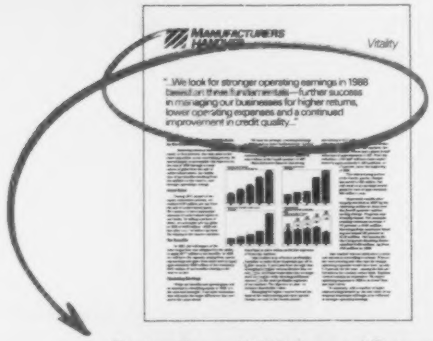
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88n	$ 4,661	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88n	$ 3,903	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88n	2.3	4.8	4.4
Change in Consumer Prices*	Mar '88	6.0%	2.4%	4.8%
Change in Producer Prices*	Mar '88	7.2%	− 2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Apr '88n	114,713	114,103	111,806
Unemployment as % of Civilian Labor Force †	Apr '88n	5.4%	5.6%	6.3%
Personal Income*	Mar '88n	$ 3,924	$ 3,895r	$ 3,683
Leading Indicators Composite Index (1967=100) †	Mar '88n	193.3	191.7r	187.6
Industrial Production Index (1977=100) †	Mar '88	134.6	134.4	127.4
Net Change in Consumer Installment Credit †	Mar '88n	$ 4.46	$ 5.04r	$ 1.84
U.S. Merchandise Trade Balance	Feb '88	−$ 13.83	−$ 12.44	−$ 14.36
Plant and Equipment Expenditures*	2nd Q'88	$427.09(a)	$422.75(a)	$377.65
Private Housing Starts (Thousands of Units)*	Mar '88	1,543	1,514	1,723
New Construction Expenditures*	Mar '88n	$ 401.8	$ 396.0r	$ 388.3
Total Business Inventories †	Feb '88	$ 715.9	$ 715.0	$ 665.7
Total Business Sales †	Feb '88	$ 468.3	$ 465.7	$ 442.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

**MANUFACTURERS
HANOVER**

Results



MANUFACTURERS
HANOVER

Vitality

"...We look for stronger operating earnings in 1988 based on three fundamentals—further success in managing our businesses for higher returns, lower operating expenses and a continued improvement in credit quality..."

Projections, 1987 Annual Report:

"...stronger operating earnings, restoring shareholders' equity."

Update, Annual Meeting, April 1988:

"For the first quarter...$140.3 million net income. $700 million in new equity."

Excerpts from remarks by Chairman John F. McGillicuddy at the MHC annual meeting on April 22, 1988.

"We looked for stronger operating earnings in 1988 based on three fundamentals—further success in managing our businesses for higher returns, lower operating expenses and a continued improvement in credit quality.

"For the first quarter, net income totalled $140.3 million—an increase of 73.2 percent over last year's first quarter and representing our highest ever quarterly net income.

"And these record results are characterized by a very strong operating earnings component.

"Also during the first quarter, we continued to demonstrate success in cost control, an area that will continue to be a priority item for us.

"In summary, then, Manufacturers Hanover's operating results in the first quarter were ahead of what we had been projecting.

"And our *overall* results—including tax benefits and other special gains—are also ahead of schedule in terms of the total financial plan we had laid out. The sale of our consumer finance subsidiary is a major part of that plan.

"This will result in a pre-tax gain of $300 million—and, after recognition of tax benefits, will add approximately $275 million to common shareholders' equity.

"Thus, on a pro forma basis, if you include the effect of this transaction, our common equity on March 31st would equate to $2.43 billion, or 3.45 percent of assets. This is up $700 million from June 30th of last year, when our ratio was 2.36 percent.

"We already had a higher equity-to-asset ratio at the Trust Company. On an actual basis at March 31st, it stood at 3.34 percent of assets, and we will continue to build on this base.

"Following the sale of our consumer finance subsidiary, we will make another capital infusion in the Trust Company, bringing its ratio of common shareholders' equity to assets to approximately 4.0 percent. **By year's end, our plan is to achieve a ratio of 4.5 percent.**

"The capital restoration plan we presented in our annual report and its most fundamental component, strong earnings from our core businesses, are running ahead of plan.

"Thanks to the extraordinary effort of the men and women of Manufacturers Hanover, 1988 looks even more promising than the picture we portrayed to you in our annual report."

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial
Digest

5|23|88

13S350-2

MANUFACTURERS
HANOVER

Financial
Digest

Volume XXV, Number 11

Monday, May 23, 1988

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

The Fed Gives Rates An Upward Nudge

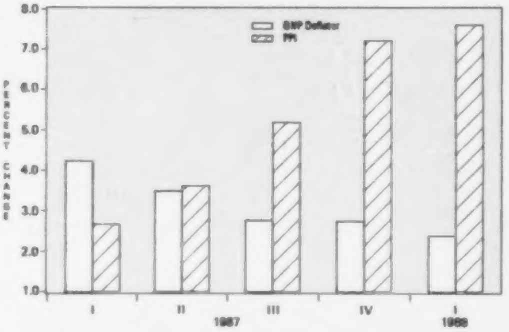
With signs of economic vigor seemingly in abundance throughout a good chunk of the economy, the financial markets have set aside their fears of a global business slump and are instead focusing on the next logical question. This is determining at what point today's apparently robust business conditions will spill over into rising inflation rates and tighter monetary policies. To some observers, this point has already been reached; they view the upturn in industrial commodities prices and industry operating rates, not to mention the recent rise in interest rates as the forerunners of a pronounced acceleration in the rate of inflation and a progressive tightening of the credit reins.

But despite these concerns, there are several bright spots in what appears to be an otherwise gloomy picture. The combination of a subdued rise in producer prices in April and a firming of the dollar's external value on the heels of a sharp narrowing of the merchandise trade deficit in March may have dampened the inflation threat for now. These developments should diminish the likelihood of another turn of the monetary screws anytime soon, brightening the prospects for at least a brief period of stable short-term interest rates.

The first piece of good news was the producer price report. According to the Labor Department, producer prices rose by 0.4 percent in April month-over-month, slower than the 0.6 percent rise posted in March, and not far from the monthly average registered during the entire first quarter. Perhaps more important, the modest April rise largely reflected an upturn in heating oil and natural gas prices. When the volatile food and energy components of the index are excluded, April's producer prices increased by a mere 0.1 percent, the smallest increase since last fall. Not only did this result provide some degree of solace to the bond market, but it must have also cheered Fed policymakers who have found themselves increasingly taking their policy cues from the reactions of the fixed-income market to the endless stream of statistics.

The trend in producer prices was not completely benign, however. Prices paid by manufacturers for such intermediate goods as chemicals and paper products rose at a much faster clip than did prices for finished goods. In fact, the 0.8 percent monthly increase in intermediate goods prices in April was the fastest monthly rise so far this year.

GNP DEFLATOR VS. PRODUCER PRICE INDEX FOR
INTERMEDIATE GOODS EXCLUDING FOOD AND ENERGY
(QUARTERLY PERCENT CHANGES AT ANNUAL RATES)



What is more, with energy prices leading the way, prices of crude goods increased sharply in April–suggesting that while inflation may seem modest at the moment, there is quite a bit of it in the "pipeline"–presumably just waiting to materialize in the months ahead.

Not All The News Is Bad

However, the acceleration of so-called "pipeline" inflation, which has been underway for over a year, is hardly convincing evidence that an intensification of economy-wide price pressures is at hand, especially if you consider recent trends in the GNP deflator, or price index. This is the broadest, and perhaps most accurate gauge of overall price pressures, reflecting as it does current consumption patterns, rather than trends in the prices of a fixed basket of goods which does not change from one period to the next.

As shown in the chart, the rate of price rise as measured by this index has slowed for four quarters in a row, despite the ongoing upturn in "pipeline" inflation. This means that, while the prices of some goods may be rising faster than before, they are largely being shunned; the goods people are actually purchasing are those whose prices are rising more slowly (Financial Digest–May 9, 1988).

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

Big Improvement On The Trade Front

The second piece of good news was the pronounced narrowing of the merchandise trade deficit in March. Whereas a sizable widening of the monthly trade imbalance in February to nearly $14 billion sparked a renewed round of dollar selling, and heightened fears of higher import prices and inflation rates, the reported narrowing of the trade deficit in March, to $9.75 billion, has had the opposite effect—bolstering the dollar's external value and diminishing the likelihood of an import price surge. So far, so good.

In today's jittery financial markets, however, every silver lining must have a cloud, and even the long-sought improvement in the trade deficit had one. With exports surging by a sharp 23 percent in March month-over-month, to a record of nearly $29 billion, helping to lift capacity utilization rates to their highest level since 1980, the inflation threat seemed to mount, not diminish. As a result, the bond market reacted negatively to the good trade news, sending prices lower and yields significantly higher.

But, although capacity utilization rates have

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/4/88)	181,246	+ 1,205	+ 11,069
New York City (5/11/88)	37,586	– 310	+ 1,155
Commercial Paper (5/11/88)	410,917	+ 706	+ 56,416

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/4/88)	301,560	+ 3,642	+10,497
New York City (5/11/88)	58,381	– 563	– 3,340

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/4/88)	892,994	+11,668	+44,294
New York City (5/11/88)	175,061	– 6,054	–31,504

Financial Markets

	Friday 5/20/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.41%	+ .06	+ .71
180-Day Bills†	6.91	+ .20	+ .52
Longest Bills†	7.42	+ .19	+ .38
Recent Issues:			
$7\frac{5}{8}$s 4/30/90	8.01	+ .16	
$7\frac{7}{8}$s 3/31/92	8.49	+ .18	
9s 5/15/98	9.39	+ .41	
$9\frac{1}{8}$s 5/15/18	9.31	+ .21	
Municipals:			
Bond Buyer—20 Bond Index* (5/19/88)	7.97%	+ .12	– .34
Blue List Total ($ Million)	$1,433	+ $ 89	– $377
30-Day Visible Supply ($ Million)	$2,872	+ $1,001	+ $150
Total	$4,305	+ $1,090	– $227
Corporates:			
Moody's Aa Composite (5/19/88)	10.18%	+ .13	+ .38
30-Day Visible Supply ($ Million)	$3,576	– $ 984	+ $183
Stocks:			
Dow-Jones Averages:			
Industrials	1,952.59	– 37.96	–290.61
Transportation	796.59	– 25.84	–137.22
Utilities–	168.74	+ .35	– 26.27
65 Stocks	725.25	– 14.39	–114.31
N.Y.S.E. Composite Index	143.30	– 2.00	– 15.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	157,000	+ 3,754	–14,542

*34% Taxable equivalent 12.08%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/20/88	Week Ago
Overnight	6.88%	6.88%
1 month	7.19	7.13
3 month	7.44	7.38
6 month	7.63	7.56
1 year	8.13	8.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/20/88)	Currency Per U.S. $	Week Ago
Belgium	35.34	35.17
Canada	1.2422	1.2331
France	5.7610	5.6970
Germany	1.7035	1.6815
Italy	1263.50	1250.50
Japan	124.94	124.60
Mexico	2273.00	2273.00
Netherlands	1.9065	1.8845
South Korea	734.30	735.80
Switzerland	1.4203	1.3987
Taiwan	28.62	28.61
U.K.*	1.8637	1.8895

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (5/20/88) (Adjusted for Inflation)	+1.0%	–7.3%

been trending higher, and such industries as paper and steel are operating at close to full capacity, the near-term price threat again appears exaggerated. For one thing, industry's overall operating rate is still well below the peak level reached in the earlier business expansions. In April, capacity utilization stood at 82.7 percent which is still some four percentage points below the peak operating rate of the late 1970s. For another, large chunks of idle capacity still exist in such industries as automobiles, electrical and non-electrical machinery. This means that additional large production gains can still be accommodated without triggering substantially higher prices.

While the Federal Reserve has nudged interest rates slightly higher in order to pre-empt an intensification of inflation expectations, whether there will be additional firming moves anytime soon is an unanswered question. One Fed governor has suggested there may not be—at least not yet. In light of both the producer price and trade balance news, the urgency of such a move would appear to have diminished. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/18/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	233.026	− 1.541	+10.765
Loans to Depository Inst.	2.270	+ .190	+ 1.379
Float	.779	− .056	− .237
Total Reserve Bank Credit	251.300	− 2.388	+11.642
Treasury Deposits with Federal Reserve Banks	5.996	− 7.156	− 8.944
Currency in Circulation	230.569	+ .497	+18.573
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	231.623	+ 1.726	+48.630
	5/18/88		
Member Bank Reserves:			
Total Reserves Held	58.699	− .926	+ 1.422
Excess (Deficiency)	.961	− .097	− .101
Net Free Reserves	.584	− .037	+ .076
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (5/9/88)	769.1	+ 5.4	+ 3.2
M2 (5/9/88)	3,000.9	+ 8.1	+ 5.1
M3 (5/9/88)	3,773.7	+ 7.2	+ 5.9
Domestic Nonfinancial Debt (4th Q'87)	8,361.5	+ 10.2	+ 10.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/20/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.25%	6.57%	6.93%
* Federal Agencies	6.95	7.05	7.20
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.20	7.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.23	7.55	7.95

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.75%	Jun.	7.00%
15- 29 days	6.95	Jul.	7.08
30- 59 days	7.00	Aug.	7.13
60- 89 days	7.15	Sep.	7.18
90-179 days	7.15	Oct.	7.20
180-239 days	7.00	Nov.	7.28
240-270 days	7.00		

‡Industrial Paper—Prime			
30- 89 days	7.08%	†Federal Funds	
90-120 days	7.15	Effective Rate	7.20%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88	$ 4,661	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88	$ 3,903	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88	2.3	4.8	4.4
Change in Consumer Prices*	Apr '88n	4.8%	6.0%	4.8%
Change in MH Cost of Living Index	Apr '88n	9.6%	8.4%	7.2%
Change in Producer Prices*	Apr '88n	4.8%	7.2%	7.2%
Civilian Employment (Thousands of Persons)†	Apr '88	114,713	114,103	111,806
Unemployment as % of Civilian Labor Force†	Apr '88	5.4%	5.6%	6.3%
Personal Income*	Mar '88	$ 3,924	$ 3,895	$ 3,683
Leading Indicators Composite Index (1967=100)†	Mar '88	193.3	191.7	187.6
Industrial Production Index (1977=100) †	Apr '88n	135.6	134.7r	127.4
Net Change in Consumer Installment Credit †	Mar '88	$ 4.46	$ 5.04	$ 1.84
U.S. Merchandise Trade Balance	Mar '88n	−$ 9.75	−$ 13.83	−$ 12.92
Plant and Equipment Expenditures*	2nd Q'88	$427.09(a)	$422.75(a)	$377.65
Private Housing Starts (Thousands of Units)*	Apr '88n	1,561	1,554r	1,635
New Construction Expenditures*	Mar '88	$ 401.8	$ 396.0	$ 388.3
Total Business Inventories †	Mar '88n	$ 720.0	$ 717.9r	$ 668.7
Total Business Sales †	Mar '88n	$ 479.5	$ 470.7r	$ 444.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

**MANUFACTURERS
HANOVER**

Commitment

Great Cause, Great Golf!

The Manufacturers Hanover
Westchester Classic®
presented by NYNEX
Westchester Country Club
Harrison, N.Y.

June 6-12, 1988

Last year, the Manufacturers Hanover Westchester Classic raised $2 million, becoming the first PGA Tour event to reach this figure. During the last 22 years, this event has raised over $12 million for the 16 area hospitals. This is a special tribute to all the volunteers, fans and corporations who continually support this great charitable event.

This year, Greg Norman, Seve Ballesteros and other top pros from the PGA Tour will compete for $700,000 in prize money.

Tickets are on sale at all the participating hospitals through June 3, thereafter at the gate. Use your Mastercard or Visa Card, by calling (212) 808-8100, Monday through Friday, 9 a.m. - 5 p.m.

Spectators are urged to arrive early and be among the first 1500 each day to receive a free visor at the gate. **Make it a point to stop by the Expo '88 tent behind the 18th green for exciting exhibits and dining.**

Benefiting Hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General, Peekskill and Putnam Hospital Center.

NABISCO

© 1988 Manufacturers Hanover All Rights Reserved

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

**Financial
Digest**

6/8/88

B 53502

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 12

Monday, June 6, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Dollar Rebounds

While the bond market wrestles with the question of whether or not the Federal Reserve is in the midst of a progressive tightening of monetary policy, the foreign exchange market is debating a closely related question, namely, if interest rates are headed higher, what is the dollar's upside potential? For with the economy exhibiting a fair degree of forward momentum, the trade deficit narrowing and the central bank stepping on the money and credit brakes (Financial Digest–May 23, 1988), some analysts believe that the dollar is poised for a good-sized, upward move–convincingly breaking out of the narrow trading ranges within which it has fluctuated all year long.

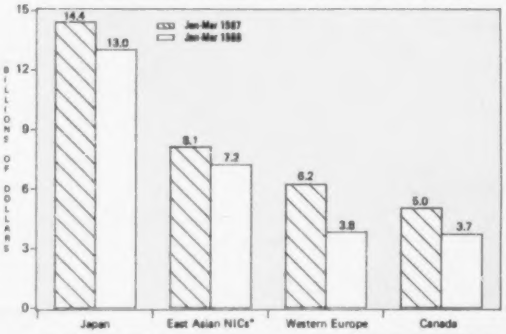
Expectations of a higher-valued dollar would have been unthinkable in the absence of a dramatic narrowing of the trade deficit–an improvement which has only recently become "visible". For although export volumes have been rising at double-digit rates for over a year now, and the growth of non-petroleum import volumes has been slowing, improvements in the real trade balance have been masked by a rapid run-up in import prices. This was largely due to the dollar's ongoing depreciation over the past three years, which boosted import costs at a much faster clip than the actual growth of import volumes. Not surprisingly, with the widely-followed, current dollar trade deficit mired in red ink, foreign exchange market participants remained skeptical that the U.S. trade picture was brightening and that the dollar's slide was over.

A good chunk of the prevailing skepticism evaporated, however, in the wake of the March trade balance numbers. Reflecting a torrid 23 percent month-over-month surge in exports, to a record $29 billion, the trade deficit tumbled from nearly $14 billion in February to less than $10 billion in March, marking the first time that the trade deficit was in single-digit territory in three years. As if on cue, market psychology began to shift–and the dollar started to move higher.

The Trade Deficit On The Mend

The dollar's ascent has not been uniform, reflecting the uneven progress that has been made in reducing our regional, and country-specific trade imbalances. Whereas the dollar has scored its most sizable gains against the European currencies in recent days, where the trade gains have been most pronounced, it has edged only slightly higher against the Japanese yen.

U.S. TRADE DEFICIT WITH SELECTED AREAS: JANUARY-MARCH 1988 VS. JANUARY-MARCH 1987



Source: Commerce Dept.

*Hong Kong, Korea, Singapore and Taiwan

Take, for example, the trade balance with Western Europe. Although a sizable deficit with West Germany still persists, our trade woes here are no longer regional in nature; if the red ink with Germany is excluded from the European totals, the U.S. trade balance with the rest of the region moved solidly into the black in March for the first time since late 1983. On the other hand, the stubbornly large trade deficit with Japan has seemingly put a lid on the dollar's upside potential against the yen, while large deficit totals with such East Asian countries as Taiwan and Korea makes it a good bet that further dollar depreciation against the currencies of these two countries will be necessary if the current trade imbalances are to be reduced (see chart).

At the same time that the dollar was being bolstered by a narrower trade deficit, reports of a stronger-than-expected economy in the first quarter, a subsequent firming of Fed monetary policy and an upturn of short-term interest rates enabled the "greenback" to extend its trade-related gains. According to the Commerce Department, the economy grew at a much faster clip in the first quarter

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

than had been initially reported. Real GNP is now estimated to have expanded at a 3.9 percent annual rate in the January-March quarter, a far more vigorous advance than the original estimate of a 2.3 percent rate of rise.

Since this comes on top of reports of surging industrial commodity prices, rising operating rates in most industries and diminished unemployment, expectations of additional Fed tightening moves mounted—sending interest rates higher, and enhancing the relative attractiveness of the dollar even further. As a result, the dollar did break higher early last week, hitting a seven-month high against the Deutschemark.

Economic Conditions Lend Support

It would be a mistake, however, to attribute too much of the dollar's current rebound to the robustness of the economy and the likelihood of anoher turn of the monetary screws. Because if it was, the dollar would probably soon be heading south again, since neither the economy is as strong, nor monetary restraint as imminent as many of the pundits seem to think.

For one thing, business activity in the current quarter appears decidedly less robust

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/18/88)	182,107	+ 431	+ 8,821
New York City (5/25/88)	38,170	+ 336	+ 881
Commercial Paper (5/25/88)	412,651	– 937	+ 54,641

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/18/88)	299,954	– 1,018	+ 6,927
New York City (5/25/88)	57,357	+ 87	– 4,915

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/18/88)	884,924	– 631	+31,926
New York City (5/25/88)	172,409	– 2,071	–36,975

Financial Markets

	Friday 6/3/88	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.67%	– .01	+ .84
180-Day Bills†	7.05	– .11	+ .79
Longest Bills†	7.51	– .09	+ .64
Recent Issues:			
81/8s 5/31/90	8.00	– .19	
77/8s 3/31/92	8.39	– .21	
9s 5/15/98	8.99	– .24	
91/8s 5/15/18	9.09	– .24	
Municipals:			
Bond Buyer—20 Bond Index* (6/2/88)	7.87%	– .09	– .10
Blue List Total ($ Million)	$1,330	+ $ 2	– $ 47
30-Day Visible Supply ($ Million)	$2,453	– $403	+ $253
Total	$3,783	– $401	+ $206
Corporates:			
Moody's Aa Composite (6/2/88)	10.25%	+ .05	+ .46
30-Day Visible Supply ($ Million)	$4,327	+ $245	– $356
Stocks:			
Dow-Jones Averages:			
Industrials	2,071.30	+ 114.86	–254.85
Transportation	853.94	+ 49.28	–132.72
Utilities	178.34	+ 7.47	– 20.30
65 Stocks	771.12	+ 41.71	–102.39
N.Y.S.E. Composite Index	150.31	+ 6.65	– 15.18
N.Y.S.E. Avg. Daily Vol. for Week (000's)	216,990	+ 80,908	+69,553

*34% Taxable equivalent 11.92%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/3/88	Week Ago
Overnight	7.13%	7.38%
1 month	7.50	7.50
3 month	7.63	7.63
6 month	7.81	7.88
1 year	8.19	8.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/3/88)	Currency Per U.S. $	Week Ago
Belgium	36.06	35.76
Canada	1.2300	1.2390
France	5.8400	5.7780
Germany	1.7240	1.7135
Italy	1282.25	1270.50
Japan	125.84	124.74
Mexico	2273.00	2273.00
Netherlands	1.9370	1.9190
South Korea	733.20	732.80
Switzerland	1.4362	1.4305
Taiwan	28.62	28.62
U.K.*	1.7985	1.8586

*U.S. $ per U.K. pound

	Change Since	
	Week Ago	2/27/85
MH TRADE-WEIGHTED DOLLAR (6/3/88) (Adjusted for Inflation)	+0.6%	–6.3%

than it was in the first, as evidenced by the flattening of personal consumption expenditures in April and the lethargic advance of the index of leading economic indicators in the same month. For another, it is hardly a foregone conclusion that a further tightening of monetary policy is just around the corner, especially if the economy's growth is indeed slowing. Rather than higher interest rates ahead, the latest batch of economic statistics might have brightened the prospects for stable, if not lower interest rates.

But this turn of events does not necessarily mean that the dollar will give back its recent gains. In fact, quite the opposite, since lower interest rates, if accompanied by a softer economy, could work strongly in the dollar's favor. This is because a generalized spending slowdown would quickly spill over into diminished import purchases, hastening the improvement in the trade balance, and further buoying the dollar. Indeed, whether or not the economy strengthens or weakens, it looks like the dollar will remain firm, if not move somewhat higher in coming months, adding credence to the belief that the dollar touched bottom late last year. How high the dollar can go will depend upon the pace of progress on the trade front. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/1/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	229.783	+ 3.173	+15.471
Loans to Depository Inst.	3.329	+ .418	+ 2.569
Float	.518	− .241	− .410
Total Reserve Bank Credit	247.803	+ 3.391	+16.776
Treasury Deposits with Federal Reserve Banks	3.210	+ .034	− 1.857
Currency in Circulation	232.125	+ 1.646	+18.366
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	231.066	+ .718	+48.571
	6/1/88		
Member Bank Reserves:			
Total Reserves Held	57.845	− .804	+ .971
Excess (Deficiency)	1.229	+ .331	+ .095
Net Free Reserves	.647	+ .126	+ .310
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (5/23/88)	769.3	+ 4.7	+ 3.2
M2 (5/23/88)	3,008.9	+ 7.5	+ 5.4
M3 (5/23/88)	3,782.0	+ 6.5	+ 6.0
Domestic Nonfinancial Debt (4th Q'87)	8,361.5	+ 10.2	+ 10.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/3/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.50%	6.78%	7.08%
* Federal Agencies	7.20	7.35	7.45
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.20	7.58
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.50	7.65	8.10

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.00%	Jul.	7.30%
15- 29 days	7.20	Aug.	7.33
30- 59 days	7.35	Sep.	7.35
60- 89 days	7.35	Oct.	7.40
90-179 days	7.35	Nov.	7.40
180-239 days	7.20	Dec.	7.40
240-270 days	7.20		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	7.34%		
90-120 days	7.43	Effective Rate	7.35%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

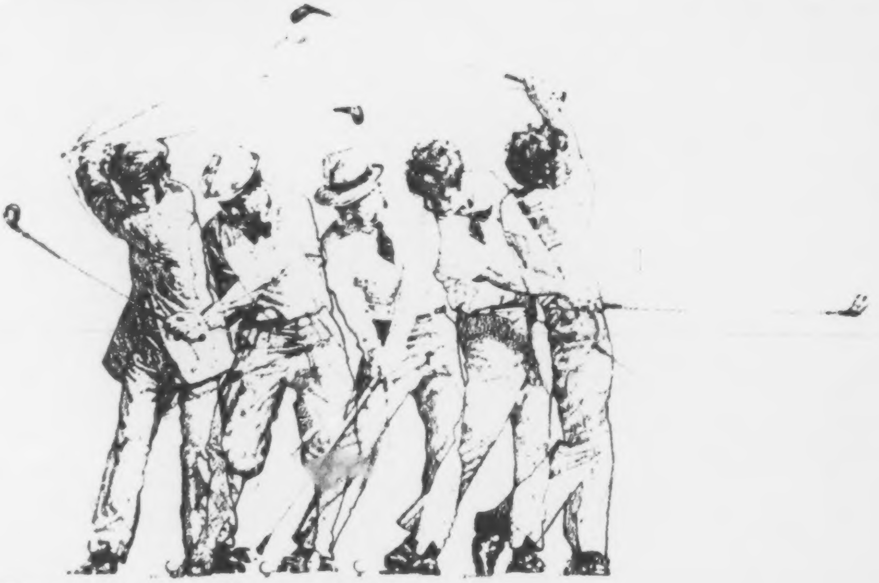
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88	$ 4,669r	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88	$ 3,918r	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88	3.9r	4.8	4.4
Change in Consumer Prices*	Apr '88	4.8%	6.0%	4.8%
Change in MH Cost of Living Index	Apr '88	9.6%	8.4%	7.2%
Change in Producer Prices*	Apr '88	4.8%	7.2%	7.2%
Civilian Employment (Thousands of Persons)†	May '88n	114,195	114,713	112,334
Unemployment as % of Civilian Labor Force†	May '88n	5.6%	5.4%	6.3%
Personal Income*	Apr '88n	$ 3,944	$ 3,939r	$ 3,702
Leading Indicators Composite Index (1967=100)†	Apr '88n	192.2	191.9r	187.6
Industrial Production Index (1977=100) †	Apr '88	135.6	134.7	127.4
Net Change in Consumer Installment Credit †	Mar '88	$ 4.46	$ 5.04	$ 1.84
U.S. Merchandise Trade Balance	Mar '88	−$ 9.75	−$ 13.83	−$ 12.92
Plant and Equipment Expenditures*	2nd Q'88	$427.09(a)	$422.75(a)	$377.65
Private Housing Starts (Thousands of Units)*	Apr '88	1,561	1,554	1,635
New Construction Expenditures*	Apr '88n	$ 401.8	$ 401.2r	$ 396.2
Total Business Inventories †	Mar '88	$ 720.0	$ 717.9	$ 668.7
Total Business Sales †	Mar '88	$ 479.5	$ 470.7	$ 444.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Commitment



Great Cause, Great Golf!

The Manufacturers Hanover
Westchester Classic®
presented by NYNEX
Westchester Country Club
Harrison, N.Y.

June 6-12, 1988

Last year, the Manufacturers Hanover Westchester Classic raised $2 million, becoming the first PGA Tour event to reach this figure. During the last 22 years, this event has raised over $12 million for the 16 area hospitals. This is a special tribute to all the volunteers, fans and corporations who continually support this great charitable event.

This year, Greg Norman, Seve Ballesteros and other top pros from the PGA Tour will compete for $700,000 in prize money.

Tickets are on sale at all the participating hospitals through June 3, thereafter at the gate. Use your Mastercard or Visa Card, by calling (212) 808-8100, Monday through Friday, 9 a.m. - 5 p.m.

Spectators are urged to arrive early and be among the first 1500 each day to receive a free visor at the gate. **Make it a point to stop by the Expo '88 tent behind the 18th green for exciting exhibits and dining.**

Benefiting Hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General, Peekskill and Putnam Hospital Center.

NABISCO

© 1988 Manufacturers Hanover. All Rights Reserved

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 13

Monday, June 20, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

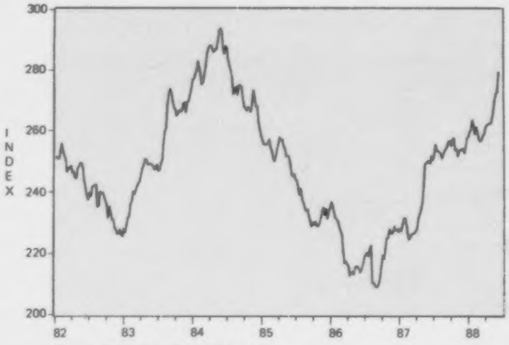
A Summer Lull For Monetary Policy?

The announcement of a smaller-than-anticipated, $9.9 billion seasonally adjusted U.S. merchandise trade deficit in April provides a positive backdrop for the convening of the Toronto Economic Summit this week. At the meeting, the major industrial countries are expected to express their general satisfaction with prevailing exchange rate levels and the progress achieved so far in reducing global trade imbalances, while concealing any substantive differences regarding such weighty issues as our domestic budget deficit, monetary policy coordination and trade protectionism behind a veil of soothing official pronouncements. Although all this may seem predictable, it does set an appropriate stage for the onset of the summer doldrums in the world's financial and foreign exchange markets.

Closer to home, however, the extent of any summertime lull in the financial markets depends upon whether or not the Federal Reserve is satisfied with the current course of the economy and inflation. If it is, monetary policy initiatives will be put on hold, and few market-jolting surprises will stem from the central bank. If it isn't, the opposite will occur. For a variety of reasons, ranging from a slowing of the pace of business during the second quarter to a less-than-immediate inflation rate threat to the dollar's new-found luster in the foreign exchange markets, it appears a good bet that monetary policy will be held steady in the weeks ahead, thereby providing little in the way of unpleasant excitement for either the financial markets or the growing cottage industry of analysts who look for meaningful implications in every squiggle of the Federal funds rate.

Perhaps the most important reason for expecting a period of monetary policy stability is the emergence of several signs suggesting that the economy's expansion is slowing from its torrid, first quarter pace—a clip which had threatened to quickly produce both capacity constraints and labor market pressures. One indication of this was contained in the May employment report. Although the number of nonfarm payroll jobs increased by a still healthy 209,000 persons last month, this was far below the nearly 350,000 monthly jobs gain posted in the first quarter.

TUESDAY SPOT PRICE INDEX: ALL COMMODITIES



Source: Commodity Research Bureau

What's more, a slight dip in the length of the workweek in May and a modest gain in factory jobs could be a forerunner of a slowing of industrial output and personal incomes growth in the months ahead. When all this is combined with the fact that such key indicators as retail sales, construction outlays and the index of leading economic indicators are, at best, only inching higher, it's hard to build a case that the economy is in the midst of an out-and-out boom—surging exports and business capital spending notwithstanding.

Caution On The Inflation Front

The spreading realization that growth is moderating is a decided plus for the financial markets, for slower growth tends to blunt inflation rate pressures before the Fed has to do so with more drastic policy actions. But what is clearly less of a plus is the fact that inflation pressures have already intensified and will probably continue to do so.

For one thing, commodity prices, a usually reliable indicator of future inflation rate trends, are moving sharply higher. With agricultural prices soaring due to the onset of drought in the Midwest, the Commodity Research Bureau's spot price index has spiked to its highest level since July 1984,

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

and is a whopping 34 percent above its late 1986 lows. To be sure, while the run-up of prices for such agricultural commodities as soybeans and corn could reverse if wetter weather arrives in the farmbelt, the escalation of such industrial commodity prices as copper, tin and zinc is probably more permanent, since it is attributable to rising activity levels and the low-valued dollar (see chart on page 1).

For another, wages are beginning to creep higher, with hourly earnings in May taking their biggest one month jump so far this year. Over the past year, hourly earnings are up nearly 3½ percent which, although in itself is hardly a threatening surge, is still faster than the 12-month rate of wage gain posted over most of the past two years. On the other hand, too much should not be read into this; the potentially inflationary effects of the upward creep of wages has been more than blunted by productivity gains. In the first quarter, labor costs per unit of output, the key factor in the longer-term inflation outlook, actually fell.

More Good Trade News

With business conditions and the near-term inflation outlook generally supportive of

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/1/88)	180,485	– 1,830	+ 4,320
New York City (6/8/88)	37,344	– 2	+ 680
Commercial Paper (6/8/88)	414,315	– 66	+ 58,631

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/1/88)	299,507	+ 503	+ 8,357
New York City (6/8/88)	57,261	+ 100	– 4,228

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/1/88)	896,183	+13,570	+43,885
New York City (6/8/88)	174,599	– 6,250	–35,689

Financial Markets

	Friday 6/17/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.56%	– .06	+ .76
180-Day Bills†	7.00	+ .05	+ .82
Longest Bills†	7.51	+ .10	+ .83
Recent Issues:			
$8\frac{1}{8}$s 5/31/90	8.03	+ .10	
$7\frac{7}{8}$s 3/31/92	8.45	+ .11	
9s 5/15/98	9.03	+ .10	
$9\frac{1}{8}$s 5/15/18	9.12	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (6/16/88)	7.73%	– .05	+ .10
Blue List Total ($ Million)	$1,560	+ $225	+$ 154
30-Day Visible Supply ($ Million)	$2,268	+ $ 32	–$ 94
Total	$3,828	+ $257	+$ 60
Corporates:			
Moody's Aa Composite (6/16/88)	10.07%	– .14	+ .47
30-Day Visible Supply ($ Million)	$4,716	+ $279	+$1,313
Stocks:			
Dow-Jones Averages:			
Industrials	2,104.02	+ 2.31	–316.83
Transportation	864.10	– 13.29	–162.84
Utilities	180.60	+ 1.49	– 24.95
65 Stocks	782.09	– 1.93	–126.43
N.Y.S.E. Composite Index	152.82	– .07	– 19.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	201,928	– 2,600	+23,951

*34% Taxable equivalent 11.71%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/17/88	Week Ago
Overnight	7.38%	7.13%
1 month	7.50	7.56
3 month	7.56	7.63
6 month	7.81	7.75
1 year	3.19	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/17/88)	Currency Per U.S. $	Week Ago
Belgium	36.59	35.93
Canada	1.2143	1.2192
France	5.9025	5.8045
Germany	1.7535	1.7190
Italy	1301.25	1278.25
Japan	125.84	124.90
Mexico	2273.00	2273.00
Netherlands	1.9655	1.9300
South Korea	728.20	728.60
Switzerland	1.4580	1.4354
Taiwan	28.64	28.62
U.K.*	1.7835	1.8190

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/17/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8%	–5.8%

monetary policy stability, one of the few "wild cards" left was the dollar's external value. But the potential for any unpleasant surprises on this front receded abruptly with the announcement that the merchandise trade deficit narrowed from a seasonally adjusted $11.7 billion in March to under $10 billion in April—a far better result than generally expected. With the trade deficit on the mend, and international interest rate differentials widening in favor of the dollar over the past two months, the question dominating the foreign exchange markets at this time is what are the dollar's upside limits, rather than guessing as to when it will touch new lows. In this environment, the likelihood of an acceleration of imported inflation is nil, and one large constraint on the flexibility of monetary policy has dissipated.

Nor could the timing of all this have been better. For with the Toronto Summit now underway, the President can bid farewell to his colleagues on a positive note, informing them that the prognosis is good for continued, albeit slower growth, restrained, although gradually rising inflation, a stable dollar and a steady monetary policy—at least for now. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/15/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	232.199	− .037	+17.039
Loans to Depository Inst.	3.651	+ .373	+ 3.000
Float	.381	− .482	− .440
Total Reserve Bank Credit	250.662	− .374	+18.896
Treasury Deposits with Federal Reserve Banks	3.110	+ .428	− .769
Currency in Circulation	233.640	+ .073	+18.876
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	227.312	− 1.047	+47.466
	6/15/88		
Member Bank Reserves:			
Total Reserves Held	61.051	+ 2.253	+ 3.095
Excess (Deficiency)	.686	− .466	− .118
Net Free Reserves	.207	− .363	− .216
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/6/88)	773.5	+ 6.5	+ 3.3
M2 (6/6/88)	3,018.1	+ 7.8	+ 5.6
M3 (6/6/88)	3,795.2	+ 6.7	+ 6.0
Domestic Nonfinancial Debt (4th Q'87)	8,361.5	+ 10.2	+ 10.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/17/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.35%	6.64%	6.99%
* Federal Agencies	7.20	7.35	7.45
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.27	7.58	7.88
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.45	7.65	8.00

‡Finance Company Paper—Prime	
5- 14 days	7.35%
15- 29 days	7.30
30- 59 days	7.35
60- 89 days	7.38
90-179 days	7.38
180-239 days	7.25
240-270 days	7.25

‡* Bankers' Acceptances	
Jul.	7.30%
Aug.	7.30
Sep.	7.30
Oct.	7.35
Nov.	7.35
Dec.	7.35

‡Industrial Paper—Prime	
30- 89 days	7.38%
90-120 days	7.42

† Federal Funds Effective Rate 7.55%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88	$ 4,669	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88	$ 3,918	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88	3.9	4.8	4.4
Change in Consumer Prices*	Apr '88	4.8%	6.0%	4.8%
Change in MH Cost of Living Index	Apr '88	9.6%	8.4%	7.2%
Change in Producer Prices*	May '88n	6.0%	4.8%	2.4%
Civilian Employment (Thousands of Persons)†	May '88	114,195	114,713	112,334
Unemployment as % of Civilian Labor Force†	May '88	5.6%	5.4%	6.3%
Personal Income*	Apr '88	$ 3,944	$ 3,939	$ 3,702
Leading Indicators Composite Index (1967=100)†	Apr '88	192.2	191.9	187.6
Industrial Production Index (1977=100) †	May '88n	136.0	135.5r	128.2
Net Change in Consumer Installment Credit †	Apr '88n	$ 3.65	$ 5.19r	$ 4.62
U.S. Merchandise Trade Balance †	Apr '88n	−$ 9.89	−$ 11.70r	−$ 13.24
Plant and Equipment Expenditures*	3rd Q'88n	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	May '88n	1,384	1,576r	1,599
New Construction Expenditures*	Apr '88	$ 401.8	$ 401.2	$ 396.2
Total Business Inventories †	Apr '88n	$ 723.7	$ 720.1r	$ 670.9r
Total Business Sales †	Apr '88n	$ 478.8	$ 479.7r	$ 445.1r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

**MANUFACTURERS
HANOVER**

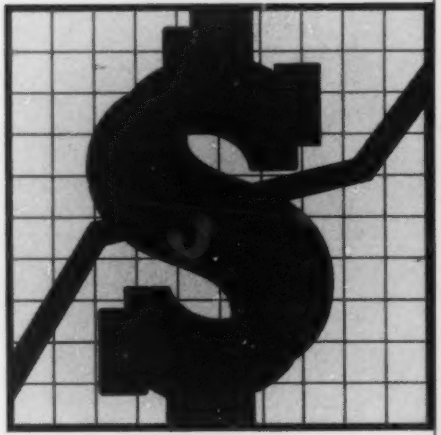
Innovative

Don't you deserve a PERC℠?

Introducing Personal Executive Revolving Credit.

A successful business depends on strong business leaders.

No one understands that better than Manufacturers Hanover.



That's why we created PERC–a personal cash reserve to satisfy the singular needs of business leaders. PERC gives you instant access to unsecured, revolving credit for amounts of $25,100 up to $100,000 –simply by writing a check. Rates are competitive and terms are flexible, offering you a new level of financial strength and security.

If you're ready for personal financing as responsive as business financing, you're ready for a PERC. Applications are available at any branch office, or phone 516-934-3600 or 212-818-3600.

© 1988 Manufacturers Hanover. All Rights Reserved.
Member FDIC Equal Opportunity Lender

The Business Banking Group

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

**Financial
Digest**

7/6/88

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 14

Friday, July 1, 1988

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Inflation Fears Reawaken Worldwide

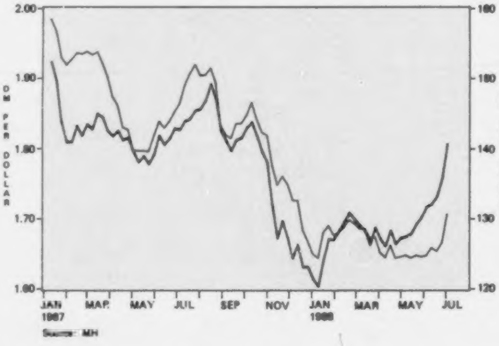
What a difference six months make! Last December, the dollar was trading at record lows against most major currencies, prompting sizable coordinated central bank intervention to prevent the "greenback" from falling even further. At the same time, most economists and currency traders, concerned by both the lack of progress being made in correcting the global trade imbalances–especially the U.S. trade deficit–and the display of confrontation among the leaders of the major industrial countries, were projecting new lows for the dollar by the end of this year. As a result, such international agencies as the Organization for Economic Cooperation and Development (OECD), government officials, and private economists were busy revising their GNP forecasts; the effects of the plunging dollar and the October stock market crash were supposed to induce a recession here and sharply lower economic growth rates abroad. Trying to avoid a global economic turndown had plainly become the chief economic priority of the major industrial nations.

Now, a half-year later, buoyed largely by two consecutive months of better-than-expected U.S. trade figures and rising U.S. interest rates, the dollar has risen beyond DM 1.82/$, more than 27 pfennigs above its early January lows and the highest against the Deutschemark since October. At the same time, the dollar has pierced the Yen 133/$ level, more than ten percent stronger than it was at the start of this year (see chart). What's more, not only did a global economic turndown fail to materialize, but economic growth in the industrial countries has seemingly become so strong that it has reawakened inflation fears worldwide, thereby prompting a trend toward higher interest rates in the major financial centers.

Interest Rates Rise

Although Germany's inflation rate is currently barely more than one percent (year-over-year), it has climbed steadily in recent months, reaching its highest pace since 1985. Thus, with the German economy growing much stronger than expected–real GDP increased by an annualized rate of six percent in the first quarter–the money supply expanding considerably above target, and the weakness of the Deutschemark beginning to place upward pressure on import prices, the Bundesbank last month took advantage of the dollar's strength and higher U.S. interest rates to raise its chief money market interest rate by a ¼ percentage point to 3.5 percent and its discount rate by a ½ percentage point to three percent.

U.S. DOLLAR VS. DEUTSCHEMARK (THICK)
AND JAPANESE YEN (THIN)
(WEEKLY AVERAGES)



Source: MH

While fears of inflation are probably exaggerated in Germany, they may have more of a basis in the United Kingdom. Buoyant economic growth, reflecting excessive wage increases, above-target money supply expansion, and hefty bank lending, triggered a jump in the inflation rate to 4.2 percent in the 12 months ending in May, almost a full percentage point higher than it was in January. In an attempt to cool off the economy, the Bank of England last month engineered four half-point increases in the British base lending rate, bringing it to 9½ percent.

Vigorous economic growth has also begun to produce some inflation concerns in Japan. While consumer prices are stable now, the Japanese economy grew by an inflation-adjusted 11.3 percent (annualized) in the March quarter, its highest growth pace in 11 years. What's more, the country's money supply has been increasing at a robust pace of more than 10 percent since May of last

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

year. Thus, although higher interest rates have yet to be formalized by the Bank of Japan, its Treasury bill rates are nudging upward and may well rise further.

The Dollar Rallies

The increase in interest rates abroad, especially in Germany, is unlikely to precipitate a plunge in the dollar the way that it did last autumn. One reason is that interest rates have already been rising here. The Federal Reserve has tightened monetary policy in the United States on three separate occasions since April; the widening differential between U.S. and German rates has clearly given the Bundesbank room to tighten its own monetary policy.

Second, this time, the Bundesbank increased its interest rates in a spirit of cooperation with the othef G-7 nations. This was not the case last October, when an increase in German interest rates triggered sharp criticism from U.S. Treasury Secretary Baker. It was this clash, more than the increase in German interest rates itself, that unnerved the markets, triggering the stock market crash and subsequent dollar selloff.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/15/88)	182,726	+ 387	+ 10,618
New York City (6/22/88)	37,767	+ 417	+ 1,466
Commercial Paper (6/22/88)	416,162	+ 2,223	+ 61,506

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/15/88)	300,602	+ 703	+15,462
New York City (6/22/88)	57,552	− 570	− 2,232

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/15/88)	897,449	− 9,245	+61,161
New York City (6/22/88)	174,952	− 6,604	− 1,023

Financial Markets

	Friday 7/1/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.73%	+ .04	+ .17
180-Day Bills†	7.00	− .07	−0−
Longest Bills†	7.48	− .02	+ .03
Recent Issues:			
8s 6/30/90	7.93	− .07	
8¼s 6/30/92	8.25	− .08	
9s 5/15/98	8.74	− .09	
9⅛s 5/15/18	8.81	− .04	
Municipals:			
Bond Buyer—20 Bond Index* (6/30/88)	7.74%	− .03	− .07
Blue List Total ($ Million)	$1,397	− $ 113	−$ 384
30-Day Visible Supply ($ Million)	$1,484	+ $ 438	−$ 562
Total	$2,881	+ $ 325	−$ 946
Corporates:			
Moody's Aa Composite (6/30/88)	10.10%	+ .03	+ .50
30-Day Visible Supply ($ Million)	$2,000	− $2,291	−$2,472
Stocks:			
****Dow-Jones Averages:**			
Industrials	2,134.96	− 8.00	−301.74
Transportation	902.63	+ 3.74	−127.80
Utilities	180.65	− 1.01	− 25.25
65 Stocks	798.41	− 1.47	−114.36
N.Y.S.E. Composite Index	154.43	− .13	− 17.40
N.Y.S.E. Avg. Daily Vol. for Week (000's)	201,672	+ 29,804	+46,496

*34% Taxable equivalent 11.73%.
**As of 2:30 p.m.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/1/88	Week Ago
Overnight	7.63%	7.38%
1 month	7.69	7.56
3 month	7.75	7.63
6 month	7.88	7.75
1 year	8.13	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/1/88)	Currency Per U.S. $	Week Ago
Belgium	38.12	37.60
Canada	1.2134	1.2058
France	6.1440	6.0470
Germany	1.8180	1.7960
Italy	1353.50	1332.00
Japan	134.95	129.85
Mexico	2273.00	2273.00
Netherlands	2.0490	2.0045
South Korea	728.40	728.70
Switzerland	1.5115	1.4960
Taiwan	28.89	28.74
U.K.*	1.7020	1.7455

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/1/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	+1.7%	−3.0

Third, significantly better-than-anticipated U.S. trade figures both in March and in April have reassured, if not convinced, the foreign exchange markets that the U.S. trade deficit is being reduced, slowly but surely. Eight months ago, little evidence was in sight, at least in dollar terms.

Finally, and perhaps most important, the combination of higher U.S. interest rates, the improving trend in the U.S. trade deficit, the still healthy performance of the U.S. economy and the apparent tolerance by the Federal Reserve of a stronger dollar has turned market sentiment sharply in favor of the U.S. currency.

As a result, not only does there appear to be little risk of a dollar selloff at the moment, but, despite the increase in German interest rates and hefty forex intervention by the Bundesbank (the central bank has spent more than $5 billion since late May to stem the greenback's rise), the dollar is likely to advance further—at least until the other G-7 central banks give the markets clear indication that they, too, feel it's gone high enough. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/29/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	234.836	+ 2.613	+10.651
Loans to Depository Inst.	2.281	– .753	+ 1.393
Float	.545	– .326	– .210
Total Reserve Bank Credit	252.653	+ 1.667	+10.859
Treasury Deposits with Federal Reserve Banks	6.529	+ 2.277	– 9.032
Currency in Circulation	233.267	– .115	+18.693
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	226.364	– 4.851	–48.556
Member Bank Reserves:	6/29/88		
Total Reserves Held	60.417	– .565	+ 3.249
Excess (Deficiency)	1.105	+ .412	– .515
Net Free Reserves	.558	+ .344	– .495
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/20/88)	778.6	+ 7.5	+ 4.1
M2 (6/20/88)	3,018.4	+ 7.1	+ 5.7
M3 (6/20/88)	3,803.3	+ 6.6	+ 6.0
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/1/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.55%	6.71%	7.00%
* Federal Agencies	7.34	7.38	7.45
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.42	7.73
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.68	7.78	7.95

‡ Finance Company Paper—Prime	
5- 14 days	7.40%
15- 29 days	7.45
30- 59 days	7.50
60- 89 days	7.53
90-179 days	7.51
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances	
Aug.	7.48%
Sep.	7.48
Oct.	7.51
Nov.	7.51
Dec.	7.51
Jan.	7.51

‡ Industrial Paper—Prime	
30- 89 days	7.53%
90-120 days	7.55

† Federal Funds Effective Rate 7.69%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88	$ 4,665r	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88	$ 3,915r	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88	3.6r	4.8	4.4
Change in Consumer Prices*	May '88n	3.6%	4.8%	4.8%
Change in MH Cost of Living Index	May '88n	4.8%	9.6%	4.8%
Change in Producer Prices*	May '88	6.0%	4.8%	2.4%
Civilian Employment (Thousands of Persons) †	May '88	114,195	114,713	112,334
Unemployment as % of Civilian Labor Force†	May '88	5.6%	5.4%	6.3%
Personal Income*	May '88n	$ 3,954	$ 3,941r	$ 3,709
Leading Indicators Composite Index (1967=100)†	May '88n	192.6	192.8r	188.6
Industrial Production Index (1977=100) †	May '88	136.0	135.5	128.2
Net Change in Consumer Installment Credit †	Apr '88	$ 3.65	$ 5.19	$ 4.62
U.S. Merchandise Trade Balance †	Apr '88	–$ 9.89	–$ 11.70	–$ 13.24
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	May '88	1,384	1,576	1,599
New Construction Expenditures*	May '88n	$ 407.1	$ 402.7r	$ 396.7
Total Business Inventories †	Apr '88	$ 723.7	$ 720.1	$ 670.9
Total Business Sales †	Apr '88	$ 478.8	$ 479.7	$ 445.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

**MANUFACTURERS
HANOVER**

Innovative

Don't you deserve a PERC℠?

Introducing Personal Executive Revolving Credit.

A successful business depends on strong business leaders.

No one understands that better than Manufacturers Hanover.

That's why we created PERC–a personal cash reserve to satisfy the singular needs of business leaders. PERC gives you instant access to unsecured, revolving credit for amounts of $25,100 up to $100,000 –simply by writing a check. Rates are competitive and terms are flexible, offering you a new level of financial strength and security.

If you're ready for personal financing as responsive as business financing, you're ready for a PERC. Applications are available at any branch office, or phone 516-934-3600 or 212-818-3600.

© 1988 Manufacturers Hanover. All Rights Reserved.
Member FDIC Equal Opportunity Lender

The Business Banking Group

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

**Financial
Digest**

7/21/88

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 15

Monday, July 18, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

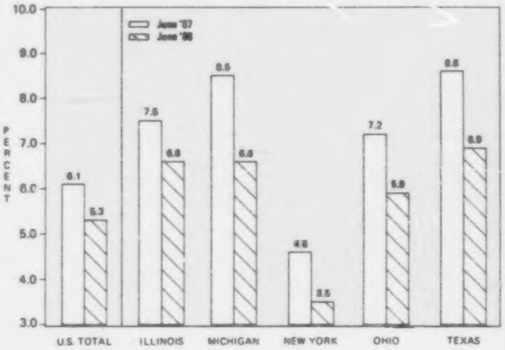
Employment Posts a Solid Gain

Despite widespread expectations that business conditions would soften in the second quarter compared with the heady growth pace of the first, the latest batch of economic statistics and surveys casts doubt on this assumption. Last month, the unemployment rate dipped to a 14-year low, the number of nonfarm payroll jobs expanded at a brisk clip, automobile and chain store sales bounced higher and a survey of the nation's purchasing managers revealed that the economy was expanding at its fastest pace since December. While this evidence virtually ensures that the economy ended the second quarter on a strong note, it also does something else: It puts pressure on the Federal Reserve to once again tighten the monetary screws in order to keep inflation in check. Indeed, Fed Chairman Alan Greenspan acknowledged just this point in Congressional testimony last week when he said that under current circumstances "... policy might be advised to err more on the side of restrictiveness rather than of stimulus".

Although the potential for slower growth, steady monetary policy and stable interest rates in coming months has not completely vanished, the likelihood of this happening has diminished somewhat in the face of the strong June employment report. According to the Labor Department, the jobless rate declined from 5.6 percent of the civilian labor force in May to 5.3 percent in June, bringing the unemployment rate to its lowest level since May 1974. What is more, total nonfarm payroll employment rose by a hefty 346,000 in June, a monthly gain that is some 15 percent higher than the January-May monthly average increase of just a shade more than 300,000.

Virtually all areas of the country are now being affected by the surge in jobs and the decline in the jobless rate, a stark contrast with the situation of two years ago when large segments of the goods-producing side of the economy, and a sizable number of states were mired in their own mini-recession. As shown in the chart, the downturn in the national unemployment rate has been mirrored far beyond the services-oriented Northeast or a small number of rapidly growing Sunbelt states; the revival of industrial America and manufacturing jobs has prompted sizable declines in the unemployment rate of such states as Illinois, Ohio and Michigan—each of which had seemingly been bypassed for a time by this business expansion.

UNEMPLOYMENT RATE NATIONWIDE
AND IN FIVE SELECTED STATES



Source: Bureau of Labor Statistics

Will The Federal Reserve Respond?

The tightening of the national and regional labor markets is only one sign of the current economic vigor. There are others, ranging from a pickup in automobile sales at the end of June, to rising levels of capital spending, to a booming export sector. Indeed, all this has fueled a growing belief in the financial markets that inflation pressures are building, another round of monetary policy tightening is imminent and short-term interest rates will soon be heading higher. In the view of many, the only remaining questions are the degree of restraint and its timing.

At first glance, this line of reasoning has a straightforward ring of truth about it. After all, despite the fact that this is an election year and memories of the October 1987 global stock market crash are still fresh, the Fed has already implemented three modest tightenings of the monetary reins so far this year. What harm could another round of restraint do? Certainly, there seem to be plenty of reasons to justify such a step,

270 Park Avenue, New York, NY 10017

including the tightening of the labor markets, the ever-larger number of industries operating at or close to capacity and the ongoing rise of commodity prices. All the risks, as pointed out by Chairman Greenspan, seem to be on the side of even faster growth and accelerating inflation.

Some Reasons For Hesitation

On closer examination, however, there are some equally good reasons as to why the Fed may hesitate before tightening policy again and, if it decides to do so, why any such step will be modest. Part of the reason lies in the same June employment report which sparked so much of the current speculation that monetary policy will be firmed. For although total employment continues to soar, wages have not; the Average Hourly Earnings Index actually eased a bit in June compared with May levels and during the past 12 months is up by less than 3½ percent. In the absence of a major acceleration in wages growth, the economy should be able to sidestep an inflationary spiral.

So, too, the Fed is unlikely to overreact to rising industrial commodity prices. For one thing, the recent price advance may be

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/29/88)	183,518	– 1,147	+ 9,595
New York City (7/6/88)	37,270	+ 239	+ 117
Commercial Paper (7/6/88)	415,245	+ 1,461	+ 70,033

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/29/88)	300,225	– 316	+10,459
New York City (7/6/88)	57,204	+ 489	– 1,509

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/29/88)	892,370	+ 43	+35,744
New York City (7/6/88)	173,624	– 731	–29,642

Financial Markets

	Friday 7/15/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.90%	+ .05	+ 1.20
180-Day Bills†	7.40	+ .17	+ 1.56
Longest Bills†	7.78	+ .02	+ 1.28
Recent Issues:			
8s 6/30/90	8.26	+ .03	
8 1/4s 6/30/92	8.56	+ .02	
9s 5/15/98	9.07	+ .04	
9 1/8s 5/15/18	9.17	+ .07	
Municipals:			
Bond Buyer–20 Bond Index* (7/14/88)	7.77%	+ .02	+ .11
Blue List Total ($ Million)	$1,270	– $ 8	–$ 183
30-Day Visible Supply ($ Million)	$1,911	– $354	–$ 373
Total	$3,181	– $362	–$ 556
Corporates:			
Moody's Aa Composite (7/14/88)	10.28%	+ .07	+ .68
30-Day Visible Supply ($ Million)	$1,710	+ $935	–$3,307
Stocks:			
****Dow-Jones Averages:**			
Industrials	2,129.45	+ 23.30	–380.59
Transportation	892.77	+ 3.58	–152.94
Utilities	179.65	+ 1.13	– 25.32
65 Stocks	794.16	+ 6.58	–137.76
N.Y.S.E. Composite Index	153.65	+ .84	– 23.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	175,278	+ 11,880	–17,295

*34% Taxable equivalent 11.77%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/15/88	Week Ago
Overnight	7.59%	7.38%
1 month	7.94	7.75
3 month	8.25	8.00
6 month	8.44	8.19
1 year	8.69	8.44

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/15/88)	Currency Per U.S. $	Week Ago
Belgium	39.03	38.29
Canada	1.2090	1.2100
France	6.2875	6.1560
Germany	1.8675	1.8305
Italy	1372.00	1355.00
Japan	134.75	132.80
Mexico	2273.00	2273.00
Netherlands	2.1045	2.0519
South Korea	725.90	726.20
Switzerland	1.5495	1.5325
Taiwan	28.66	28.76
U.K.*	1.6850	1.7035

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/15/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.9%	–2.2%

partially due to speculative spillover from the drought-induced runup in the price of such agricultural commodities as wheat and corn. Wetter weather alone could deflate some of this price bulge and, in any event, it is unlikely that the Fed would launch a major policy initiative simply in response to the effects of unanticipated weather trends. For another, the ascent of commodity prices has yet to spread to the prices of precious metals, perhaps the most sensitive barometer to shifts in inflation psychology. The gold price, for example, currently stands some 10 percent below the price prevailing at the beginning of this year. Finally, even the dollar's current strength in the foreign exchange markets might temper the tightening enthusiasm of the central bank, especially such a overt move as hiking the discount rate. Nudging interest rates higher here could boost the dollar even further (Financial Digest–July 1, 1988) which, while having the benefit of restraining imported inflation, will eventually impede efforts to export our way out of today's huge foreign trade deficit. For these reasons, while the Fed may decide to again snug monetary policy, the odds favor that any move will be neither hasty nor dramatic. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	7/13/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	236.315	+ .034	+19.393
Loans to Depository Inst.	3.878	+ .444	+ 3.205
Float	.920	+ .605	+ .251
Total Reserve Bank Credit	256.067	+ 1.203	+22.013
Treasury Deposits with Federal Reserve Banks	4.148	– .538	– 1.537
Currency in Circulation	237.232	+ 1.049	+20.027
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.945	+ .019	+46.574
	7/13/88		
Member Bank Reserves:			
Total Reserves Held	62.162	+ 1.763	+ 3.675
Excess (Deficiency)	.754	– .296	+ .282
Net Borrowed Reserves	.562	– 1.092	+ .599
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (7/4/88)	777.5	+ 6.1	+ 4.6
M2 (7/4/88)	3,022.9	+ 6.0	+ 5.9
M3 (7/4/88)	3,806.5	+ 5.5	+ 6.1
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/15/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.74%	7.06%	7.28%
* Federal Agencies	7.65	7.70	7.80
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.58	7.95	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.00	8.30	8.45

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.00%	Aug.	7.71%
15- 29 days	7.38	Sep.	7.75
30- 59 days	7.50	Oct.	7.81
60- 89 days	7.63	Nov.	7.86
90-179 days	7.63	Dec.	7.93
180-239 days	7.70	Jan.	7.98
240-270 days	7.70		

‡Industrial Paper—Prime			
30- 89 days	7.83%	†Federal Funds	
90-120 days	7.85	Effective Rate	7.90%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88	$ 4,665	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88	$ 3,915	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88	3.6	4.8	4.4
Change in Consumer Prices*	May '88	3.6%	4.8%	4.8%
Change in MH Cost of Living Index	May '88	4.8%	9.6%	4.8%
Change in Producer Prices*	Jun '88n	4.8%	6.0%	1.2%
Civilian Employment (Thousands of Persons)†	Jun '88n	115,018	114,195	112,300
Unemployment as % of Civilian Labor Force†	Jun '88n	5.3%	5.6%	6.1%
Personal Income*	May '88	$ 3,954	$ 3,941	$ 3,709
Leading Indicators Composite Index (1967=100)†	May '88	192.6	192.8	188.6
Industrial Production Index (1977=100) †	Jun '88n	136.6	136.1r	129.1
Net Change in Consumer Installment Credit †	May '88n	$ 2.42	$ 3.85	$ 1.16
U.S. Merchandise Trade Balance †	May '88n	–$ 10.93	–$ 10.30	–$ 14.07
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	May '88	1,384	1,576	1,599
New Construction Expenditures*	May '88	$ 407.1	$ 402.7	$ 397.9r
Total Business Inventories †	May '88n	$ 728.4	$ 724.0r	$ 677.3r
Total Business Sales †	May '88n	$ 483.7	$ 479.5r	$ 448.5r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Momentum

Success stories

Coming off a record first quarter, Manufacturers Hanover continues to move steadily ahead. The total story is made up of many stories, the contributions of all our people using all their skills and the resources of the organization to the maximum. Here are some of those components of success.

MANUFACTURERS HANOVER

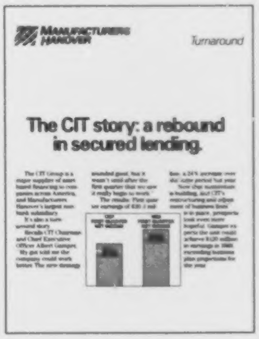
Consumer Confidence

$500 million in new consumer deposits in the first quarter of '88.

MANUFACTURERS HANOVER

Teamwork

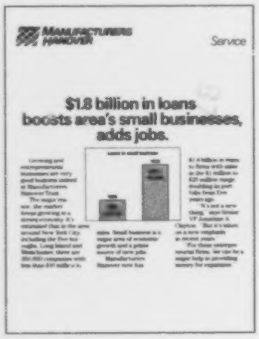
Agent for the world's largest store.



MANUFACTURERS HANOVER

Turnaround

The CIT story: a rebound in secured lending.



MANUFACTURERS HANOVER

Service

$1.8 billion in loans boosts area's small businesses, adds jobs.

MANUFACTURERS HANOVER

Expertise

We're named to management group for NYC bond offerings.

© 1988 Manufacturers Hanover. All Rights Reserved. Member FDIC

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

B5350-2

MANUFACTURERS
HANOVER

Financial
Digest

Volume XXV, Number 16

Monday, August 1, 1988

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

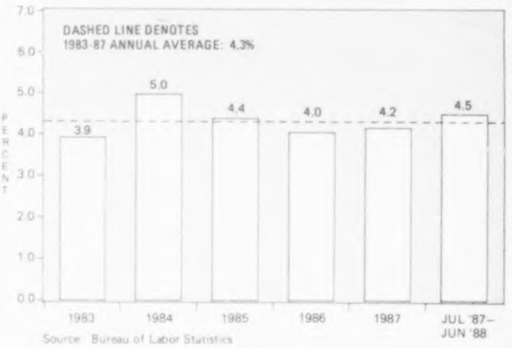
Inflation Fears Seem Exaggerated

As memories of last October's global stock market collapse fade, the principal concern of the financial markets has shifted from the prospect of recession to the potential for accelerating inflation. Notwithstanding–the fact that the annual rate of inflation has remained below four percent every year from 1982 through 1986, a year when the consumer price index (CPI) advanced by a mere 1.1 percent, and that 1987's rise in the CPI was only 4.4 percent, uneasiness about the inflation outlook continues to dominate Wall Street's thinking. However, while tightening labor markets, higher industry operating rates and rising commodity prices have fueled inflation expectations, several other mitigating factors, ranging from softening oil prices to subdued wage increases to consumer resistance to higher prices should be sufficient to blunt inflation pressures.

The modest increase in consumer prices in June bolstered the position of those who contend that today's inflation fears are exaggerated. According to the Labor Department, consumer prices rose by 0.3 percent in June month-over-month, the same rate of rise as in May, largely due to a hefty runup in the prices of such food items as meat, poultry and eggs. Although the increase in poultry prices reflected to some extent the effects of the drought in the Midwest, there were few other signs of the unusual dry spell; in any event, a good chunk of the increase in food costs was offset by declines in energy and apparel prices.

Manufacturers
Hanover
Economics
Department
17/270

Perhaps more important were two other items contained within the consumer price report. For one thing, average hourly earnings remained unchanged in June, indicating that wage pressures, even with the unemployment rate standing at a 14-year low, are fairly well contained. Since labor costs make up two-thirds of business costs, moderate wage gains are a decided plus in the inflation outlook. For another, consumer prices, excluding the volatile food and energy components, continue to advance at not only a restrained clip, but a remarkably stable one as well. While the 0.4 percent June gain was faster than May's 0.2 percent advance, over the past year this "core" inflation rate was 4½ percent, just a shade higher than the 1983-1987, five-year average of 4.3 percent (see chart).


PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX
EXCLUDING FOOD AND ENERGY
1983 – PRESENT

Source: Bureau of Labor Statistics

Oil Prices Brighten the Outlook

Consumer price behavior in June provides a glimpse of what might occur over the balance of this year–stable to lower energy prices and moderate wage gains keeping overall inflation in check, despite the periodic ringing of alarm bells in the financial press and on Wall Street. Take, for example, the likely trend in oil prices. Even before the cease fire between Iran and Iraq was announced oil prices were heading lower. Although some believe that peace in the Middle East could boost oil prices, it appears a better bet that these two war-weary countries will attempt to repair their oil-producing facilities quickly, begin pumping as much oil as possible and start making up for a lost decade of development. If successful, this will have a significant impact on an already saturated global oil market. At their respective peaks in the mid-1970s, these two countries produced over eight million barrels a day, almost twice their recent combined output. Unless matched by output declines elsewhere, this could depress oil prices by several dollars a barrel–holding down inflation in the process.

As far as other commodities are concerned, prices of industrial raw materials appear to have topped out, moving essentially sideways

270 Park Avenue, New York, NY 10017

in recent weeks. Even on the food front, the picture may not be so bleak. Recent rains have rescued a good part of the crops threatened by drought, and those crops that have been reduced are either in good supply in the government's storage bins and/or available from other countries. What is more, the prices of some food products are actually falling as a result of the drought. Although rising meat prices contributed to the escalation of food prices in June, with ranchers stepping up shipments of meat animals to market in order to avoid significantly higher feedgrains' costs, the upturn in meat prices should soon be reversed.

The Economy Has Room to Grow

While commodity price trends provide insufficient evidence that inflation is about to sharply accelerate, tightening labor markets and rising industry operating rates do suggest that the direction of inflation will be higher, rather than lower. But the critical questions of how soon, and how much persist. For while the jobless rate currently stands at a 14-year low—a point repeatedly referred to by the inflation bears—the fact is that the unemployment rate has often been lower, averaging 4¾ percent from 1948 through 1973. However, this period enjoyed both low inflation rates and low unemploy-

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (7/13/88)	184,458	+ 1,397	+ 8,237
New York City (7/20/88)	37,826	+ 25	+ 828
Commercial Paper (7/20/88)	419,166	+ 3,670	+ 74,059

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (7/13/88)	299,134	– 3,027	+13,564
New York City (7/20/88)	57,979	+ 875	+ 47

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (7/13/88)	891,493	– 3,958	+46,499
New York City (7/20/88)	175,174	+ 1,024	–25,659

Financial Markets

	Friday 7/29/88	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.15%	+ .21	+ .93
180-Day Bills†	7.48	+ .11	+ 1.07
Longest Bills†	7.88	+ .15	+ 1.07
Recent Issues:			
8 3/8s 7/31/90 (When Issued)	8.36	NA	
8 1/4s 6/30/92	8.62	+ .03	
9s 5/15/98	9.11	+ .01	
9 1/8s 5/15/18	9.21	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (7/28/88)	7.76%	– .01	+ .03
Blue List Total ($ Million)	$1,375	– $ 2	–$ 408
30-Day Visible Supply ($ Million)	$1,150	– $442	–$ 425
Total	$2,525	– $444	–$ 833
Corporates:			
Moody's Aa Composite (7/28/88)	10.33%	+ .01	+ .55
30-Day Visible Supply ($ Million)	$1,617	– $375	–$1,193
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,128.73	+ 67.74	–443.34
Transportation	886.20	+ 28.82	–190.46
Utilities	182.85	+ 7.35	– 18.90
65 Stocks	794.39	+ 26.41	–156.93
N.Y.S.E. Composite Index	153.35	+ 4.10	– 25.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	164,206	+ 13,950	–17,936

*34% Taxable equivalent 11.76%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/29/88	Week Ago
Overnight	7.69%	7.69%
1 month	8.00	7.94
3 month	8.31	8.25
6 month	8.50	8.50
1 year	8.75	8.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/29/88)	Currency Per U.S. $	Week Ago
Belgium	39.04	38.25
Canada	1.2105	1.1973
France	6.3350	6.1510
Germany	1.8665	1.8292
Italy	1377.00	1353.50
Japan	132.75	130.95
Mexico	2273.00	2273.00
Netherlands	2.1065	2.0640
South Korea	723.70	724.30
Switzerland	1.5530	1.5205
Taiwan	28.63	28.63
U.K.*	1.7160	1.7347

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/29/88) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+1.3%	–2.0%

ment; consumer price increases averaged just 2½ percent annually during these years.

So, too, today's industry operating rates might be less of an immediate threat than appears at first glance. The eight-year high reported for capacity utilization in June is high only in comparison with the past eight years. In late 1978, the ratio was nearly four points higher and, during the 1960s, was above 90 percent on more than one occasion. To be sure, while a few industries are operating at, or close to capacity, most are not.

Finally, a sustained price spiral seems unlikely unless the consumer plays along, and consumer resistance to price increases still appears to be the order of the day. The price index that is a part of the GNP accounts has risen at an annual rate of less than three percent during the first half of this year, far slower than the CPI's nearly 4½ percent jump. Since GNP-based deflators measure prices only of those goods consumed, the implication of the slower rise of the GNP price index is that people are shunning those goods whose prices are rising rapidly in favor of those whose prices are going up more slowly, or not at all. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 7/27/88	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	231.527	− 1.907	+18.452
Loans to Depository Inst.	3.398	+ .260	+ 2.602
Float	.864	+ .041	+ .337
Total Reserve Bank Credit	251.467	− 1.191	+21.136
Treasury Deposits with Federal Reserve Banks	3.594	+ .385	− .278
Currency in Circulation	234.880	− 1.145	+19.457
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	224.329	− .116	+47.394
	7/27/88		
Member Bank Reserves:			
Total Reserves Held	61.137	− 1.036	+ 4.062
Excess (Deficiency)	1.293	+ .419	+ .310
Net Free Reserves	.696	+ 1.138	+ .232
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (7/18/88)	781.4	+ 7.4	+ 5.0
M2 (7/18/88)	3,023.6	+ 5.0	+ 5.9
M3 (7/18/88)	3,819.8	+ 5.4	+ 6.4
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/29/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.97%	7.13%	7.37%
* Federal Agencies	7.75	7.85	7.95
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.95	8.71	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.20	8.50	8.70

‡ Finance Company Paper—Prime	
5- 14 days	7.00%
15- 29 days	7.38
30- 59 days	7.50
60- 89 days	7.63
90-179 days	7.63
180-239 days	7.70
240-270 days	7.70

‡* Bankers' Acceptances	
Sep.	7.83%
Oct.	7.88
Nov.	7.92
Dec.	7.98
Jan.	8.00
Feb.	8.05

‡ Industrial Paper—Prime	
30- 89 days	7.88%
90-120 days	8.08

† Federal Funds Effective Rate 7.80%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88n	$ 4,807	$ 4,725r	$ 4,484r
Gross National Product (1982 Dollars)*	2nd Q'88n	$ 3,986	$ 3,956r	$ 3,823r
Percent Change, Annual Rate	2nd Q'88n	3.1	3.4r	5.0r
Change in Consumer Prices*	Jun '88n	3.6%	3.6%	3.6%
Change in MH Cost of Living Index	Jun '88n	4.8%	4.8%	3.6%
Change in Producer Prices*	Jun '88	4.8%	6.0%	1.2%
Civilian Employment (Thousands of Persons) †	Jun '88	115,018	114,195	112,300
Unemployment as % of Civilian Labor Force †	Jun '88	5.3%	5.6%	6.1%
Personal Income*	Jun '88n	$ 4,042	$ 4,014r	$ 3,747r
Leading Indicators Composite Index (1967=100) †	May '88	192.6	192.8	188.6
Industrial Production Index (1977=100) †	Jun '88	136.6	136.1	129.1
Net Change in Consumer Installment Credit †	May '88	$ 2.42	$ 3.85	$ 1.16
U.S. Merchandise Trade Balance †	May '88	−$ 10.93	−$ 10.30	−$ 14.07
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	Jun '88n	1,384	1,576	1,599
New Construction Expenditures*	May '88	$ 407.1	$ 402.7	$ 397.9
Total Business Inventories †	May '88	$ 728.4	$ 724.0	$ 677.3
Total Business Sales †	May '88	$ 483.7	$ 479.5	$ 448.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Structured Solutions

Leader in Acquisition Finance

Jim Walter Corporation
Hillsborough Holdings Corporation
Kohlberg Kravis Roberts & Co.
$2,300,000,000
Tender Financing
$2,000,000,000
Senior Debt Financing

Elizabeth Arden
Faberge, Inc.
$425,000,000
Senior Secured Financing

The Southland Corporation
J T Acquisition Corporation
$3,000,000,000
Senior Debt Financing

Supermarkets General Corporation
SMG Acquisition Corp.
Merrill Lynch Capital Partners, Inc. and Management
$1,000,000,000
Senior Debt Financing

Beatrice International Food Company
TLC Beatrice International Holdings Inc.
TLC Group L.P.
$450,000,000
Senior Debt Financing

Sybron Corporation
Sybron Acquisition Corporation
Donaldson, Lufkin & Jenrette, Hicks & Haas and the management of Sybron Corporation
$140,000,000
Senior Secured Term Loan
$60,000,000
Senior Secured Revolving Credit

The Investment Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 17

Monday, August 15, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Fed Tightens Up

The announcement of a larger-than-expected 283,000 person increase in nonfarm payroll employment in July, a substantial upward revision to the June employment numbers, and an acceleration in wage growth apparently provided sufficient ammunition last week for the Federal Reserve to overtly firm monetary policy. With the labor markets seemingly tightening and industry operating rates edging higher, the Fed boosted its discount rate by one half of one percentage point from six to 6½ percent, the first time this key rate was raised since last September. Major banks followed by boosting their prime lending rates a half-point to 10 percent—the highest since June 1985.

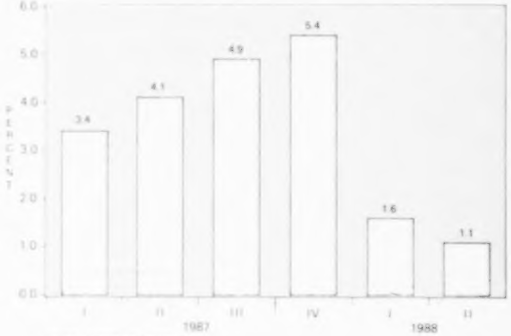
In taking this step, the central bank is attempting to slow the growth of the economy with the intent of pre-empting budding price pressures. However, since this action comes at a time when domestic demand has already softened and inflation pressures remain restrained, this latest turn of the monetary screws may well be the culmination of a series of incremental tightening steps, rather than the beginning of a new round of monetary policy restraint.

At first glance, it is hard to believe that there are any soft spots in the economy and that inflation pressures are moderate. After all, with total employment surging in the past two months, the economy's forward momentum appeared to be strong, going into the third quarter. Brisk increases in manufacturing employment, accompanied by a longer factory workweek, suggest that good-sized increases in industrial production and capacity utilization rates almost certainly occurred last month. In fact, the July employment numbers appeared so robust that some analysts are now speculating that the economy is expanding at a full percentage point faster clip than it did in the second quarter, when the inflation adjusted GNP rose at a healthy 3.1 percent annual rate. According to this view, higher levels of economic activity mean escalating wages and greater capacity constraints—the classic recipe for higher inflation rates and even more monetary restraint.

A Well-Balanced Business Expansion

The problem with this line of reasoning is that it overlooks the benefits arising from the sweeping shift in the composition of economic growth which has occurred in recent quarters, a change which could well be muting, rather than enhancing price pressures. The largest single contributor to growth over the past two quarters has been the narrowing of the foreign trade deficit.

REAL DOMESTIC DEMAND
(QUARTERLY PERCENT CHANGES AT ANNUAL RATES)



Source: Commerce Department

All this has taken place against the backdrop of a decided slowing of much of the rest of the economy, preserving today's relatively stable price environment and allowing room for the export/capital spending surge. For, as shown in the chart, the growth of real domestic demand, or real GNP minus the foreign trade sector, has decelerated sharply this year, as consumer spending softened, housing activity flattened and government demand tapered-off.

So, too, this compositional shift in growth casts doubt on the assumption of the inflation bears that more jobs and higher wages necessarily threaten price stability. For one thing, a good chunk of the job gains of recent months are related to the capital spending surge, as well as to the production of more goods for export. For another, the rise in payroll employment has shown no sign of fueling a bulge in household spending. Consumer spending on goods, after accounting for inflation, is no higher today than it was two years ago. Although the reasons for the loose linkage between the

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

rapid growth of payroll jobs and the flattening of household spending are being hotly debated, it could be partially due to the double-counting of multiple job holders who are trying to make ends meet, and/or the attempt by households in general to rebuild much depleted savings balances.

Few Signs Of Inflation

Far from being inflationary, today's robust export and associated capital spending led growth may be quite the opposite, setting the stage for modest rates of inflation for years to come. Perhaps for this reason, despite all the dire inflation predictions, there are actually very few signs of a price surge (Financial Digest–August 1, 1988). The consumer price index continues to edge up at a moderate pace, the rise of commodity prices seems to have topped out, oil prices are drifting lower and the price of gold is falling. Even the bug-a-boo of higher industry operating rates and its inflationary implications has been exaggerated. While the overall capacity utilization rate has been creeping higher, the most pronounced gains are occuring in such industries as autos and machinery, which still possess large chunks of idle

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/27/88)	186,706	+ 2,023	+ 15,136
New York City (8/3/88)	38,882	+ 131	+ 1,495
Commercial Paper (8/3/88)	416,682	– 1,356	+ 71,332

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/27/88)	299,422	– 98	+22,176
New York City (8/388)	57,719	– 171	+ 1,181

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/27/88)	891,477	– 848	+65,261
New York City (8/3/88)	175,360	+ 389	–27,564

Financial Markets

	Friday 8/12/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.21%	+ .11	+ 1.10
180-Day Bills†	7.83	+ .23	+ 1.54
Longest Bills†	8.22	+ .21	+ 1.38
Recent Issues:			
8 3/8s 7/31/90	8.64	+ .20	
8 1/4s 6/30/92	8.67	+ .23	
9 1/4s 8/10/98	9.50	NA	
9 1/8s 5/15/18	9.40	+ .27	
Municipals:			
Bond Buyer–20 Bond Index* (8/11/88)	7.83%	+ .14	+ .07
Blue List Total ($ Million)	$1,315	– $ 9	–$ 219
30-Day Visible Supply ($ Million)	$1,899	+ $ 323	–$ 899
Total	$3,214	+ $ 314	–$1,118
Corporates:			
Moody's Aa Composite (8/11/88)	10.37%	+ .11	+ .52
30-Day Visible Supply ($ Million)	$4,367	+ $1,638	+$1,809
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,037.52	– 81.61	–647.91
Transportation	852.15	– 29.12	–249.01
Utilities	176.68	– 5.99	– 37.11
65 Stocks	762.41	– 28.58	–226.67
N.Y.S.E. Composite Index	148.55	– 4.54	– 38.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	180,352	+ 24,280	–42,659

*34% Taxable equivalent 11.86%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/12/88	Week Ago
Overnight	8.00%	7.50%
1 month	8.31	7.94
3 month	8.63	8.25
6 month	8.88	8.56
1 year	9.13	8.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/12/88)	Currency Per U.S. $	Week Ago
Belgium	39.42	39.47
Canada	1.2228	1.2061
France	6.3730	6.3640
Germany	1.8792	1.8875
Italy	1395.00	1392.00
Japan	133.00	133.36
Mexico	2273.00	2273.00
Netherlands	2.1270	2.1293
South Korea	723.20	723.30
Switzerland	1.5760	1.5825
Taiwan	28.62	28.63
U.K.*	1.7130	1.7035

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (8/12/88) (Adjusted for Inflation)	+0.4%	–1.2%

capacity, while such industries as paper and textiles, which had been operating near full capacity, have experienced a dip in capacity usage.

Why, then, in light of all this, did the Fed choose now to overtly tighten the monetary reins—and right in the middle of a quarterly Treasury refunding operation to boot? The Treasury auctions may provide part of the reason; speculation had been rampant for weeks regarding a Fed tightening, and the hike in the discount rate removed some of the uncertainty among potential bidders.

Also, the Fed needed to convince the bond market bears that policy flexibility will not be held hostage to the upcoming Presidential elections. Unwittingly, however, the Fed may have exchanged one potential policy straightjacket for another. For if it allows policy to be even subtly guided by the fleeting shifts in bond market psychology, the policy rollercoaster is just about to begin; the consensus in the fixed-income markets changes almost as often as a summer movie marquee. For this reason, the Fed must always lead the bond crowd, rather than the reverse. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	8/10/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	230.307	– 1.190	+16.008
Loans to Depository Inst.	3.176	– .326	+ 2.605
Float	.680	– .148	+ .229
Total Reserve Bank Credit	251.666	– .915	+20.134
Treasury Deposits with Federal Reserve Banks	3.158	– .252	+ .052
Currency in Circulation	236.507	+ 1.204	+19.225
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	224.069	– .161	+47.579
	8/10/88		
Member Bank Reserves:			
Total Reserves Held	60.807	– .229	+ 3.439
Excess (Deficiency)	.715	– .515	– .086
Net Excess Reserves	.124	– .501	– .233
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (8/1/88)	784.4	+ 6.1	+ 5.3
M2 (8/1/88)	3,027.7	+ 4.2	+ 5.7
M3 (8/1/88)	3,823.3	+ 5.5	+ 6.3
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/12/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.00%	7.45%	7.66%
* Federal Agencies	8.10	8.10	8.10
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.71	9.09	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.35	8.70	8.95

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Sep.	8.08%
15- 29 days	8.08	Oct.	8.18
30- 59 days	8.15	Nov.	8.25
60- 89 days	8.15	Dec.	8.30
90-179 days	8.05	Jan.	8.38
180-239 days	7.90	Feb.	8.38
240-270 days	7.90		

‡ Industrial Paper—Prime			
30- 89 days	8.25%	† Federal Funds	
90-120 days	8.38	Effective Rate	8.20%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,807	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,986	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.1	3.4	5.0
Change in Consumer Prices*	Jun '88	3.6%	[illegible]	3.6%
Change in MH Cost of Living Index	Jun '88	4.8%	[illegible]	3.6%
Change in Producer Prices*	Jul '88n	6.0%	[illegible]	1.2%
Civilian Employment (Thousands of Persons) †	Jul '88	115,059	[illegible]	112,639
Unemployment as % of Civilian Labor Force †	Jul '88	5.4%	[illegible]	6.0%
Personal Income*	Jun '88	$ 4,042	[illegible]	$ 3,747
Leading Indicators Composite Index (1967=100) †	Jun '88n	194.0	191.3r	190.5
Industrial Production Index (1977=100) †	Jun '88	136.6	136.1	129.1
Net Change in Consumer Installment Credit †	Jun '88n	$ 5.43	$ 2.98r	$ 6.65
U.S. Merchandise Trade Balance †	May '88	–$ 10.93	–$ 10.30	–$ 14.07
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	Jun '88	1,454r	1,384r	1,583r
New Construction Expenditures*	Jun '88n	$ 402.8	$ 402.3r	$ 392.6
Total Business Inventories †	Jun '88n	$ 733.9	$ 729.0r	$ 680.5r
Total Business Sales †	Jun '88B	$ 490.6	$ 483.6r	$ 453.9r

***Seasonally adjusted annual rate. †Seasonally adjusted.** n-Newly reported figure. **r-Revised. a-Anticipated.**

MANUFACTURERS HANOVER

Advisor

Merger & Acquisition Expertise

This announcement appears as a matter of record only.

EAC USA
U.S. subsidiary of
EAC, Inc.
has acquired
Baumfolder, Inc.

Manufacturers Hanover Trust Company acted as exclusive advisor to EAC USA in this transaction and assisted in the negotiations.

This announcement appears as a matter of record only.

Ellesse USA Inc.
a subsidiary of
Ellesse Int'l. S.p.A.
has been sold to
Reebok International Ltd.

Manufacturers Hanover Trust Company acted as exclusive financial advisor to Ellesse Int'l. S.p.A. in this transaction.

This announcement appears as a matter of record only.

PRC Management, Inc.
has acquired
Metropolitan Savings Association

Manufacturers Hanover Trust Company initiated this transaction and acted as exclusive advisor to PRC Management.

This announcement appears as a matter of record only.

Soros Associates
has been acquired by
Snamprogetti USA Inc.
a subsidiary of
Snamprogetti S.p.A. and ENI Group

Manufacturers Hanover Trust Company acted as exclusive advisor to Soros Associates and assisted in the negotiations.

This announcement appears as a matter of record only.

Brown Jordan Furniture
a subsidiary of
Brown Jordan Company Limited Partnership
a partnership organized by
Integrated Resources
has been sold to
Chicago Pacific Corp.

Manufacturers Hanover Trust Company acted as exclusive financial advisor to Integrated Resources and Brown Jordan Company Limited Partnership in this transaction.

This announcement appears as a matter of record only.

American Lantern
a subsidiary of
Brown Jordan Company Limited Partnership
a partnership organized by
Integrated Resources
has been sold to
First Chicago Venture Capital Corp.

Manufacturers Hanover Trust Company acted as exclusive financial advisor to Integrated Resources and Brown Jordan Company Limited Partnership in this transaction.

The Investment Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 18 Monday, August 29, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

A Temporary Foreign Trade Setback

The announcement that the merchandise trade deficit widened in June following three straight months of improvement not only failed to dampen expectations that vigorous export growth would continue to power the current economic expansion, but it even failed to dim the renewed luster of the dollar in the foreign exchange markets. This is because although exports dipped slightly in June compared with May levels, they still stand far higher than in June 1987 and, while the monthly trade deficit may have deteriorated, the red-ink total for the second quarter as a whole was substantially smaller than in the same quarter last year. As a result, with the worsening of the trade deficit in June seemingly more transitory than fundamental, neither today's upbeat economic outlook nor the dollar's recent advance in the foreign exchange markets was seriously challenged.

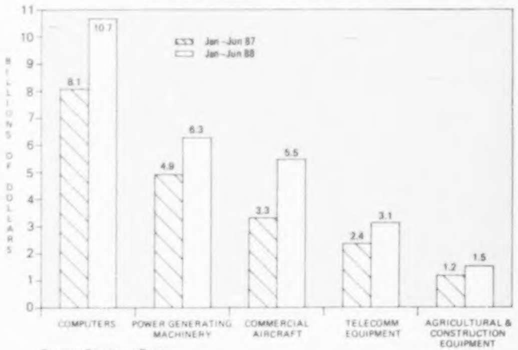
If one were to look at the June trade statistics alone, however, the subdued reaction to these numbers might seem surprising. According to the Commerce Department, the trade deficit widened to a seasonally adjusted $12.54 billion in June, the biggest red-ink total since February, and well above the revised $9.76 billion deficit posted in May. The wider June deficit stemmed from a 2.4 percent dip in exports, particularly of capital goods, month over month, and a sizable upturn in imports of almost everything—the same disappointing combination which produced the huge trade gap in the first place. As if this wasn't bad enough, the individual trade balances with virtually all of our major trading partners worsened in June as well.

As with nearly all economic statistics, too much importance should not be attached to one month's results, and the most recent trade report is no exception. There is still a sufficient amount of good news on the trade front to warrant a cautious optimism that the underlying trend in U.S. trade remains favorable, as well as to justify the prevailing sentiment of the foreign exchange markets that a further, generalized debasement of the dollar is no longer a necessary, or even a desirable, prerequisite for additional trade gains.

Some Bright Spots

For one thing, the potentially negative implications of a wider trade deficit in June were largely neutralized by a hefty downward revision of the May trade gap. Initially estimated at $10.9 billion, this figure was subsequently lowered to $9.76 billion, the smallest monthly red-ink total in 3½ years. This helped to lower the average monthly trade deficit in the second quarter to $10.9 billion, a figure more than 20 percent below the $14.1 billion monthly average in the second quarter of 1987, and 30 percent smaller than the peak monthly trade deficit of $15.6 billion posted in October 1987.

U.S. EXPORTS BY PRODUCT GROUP
JAN–JUN 1988 VS. JAN–JUN 1987



Source: Commerce Dept.

For another, there is little evidence that the current export boom is running out of steam. Exports still totaled nearly $27 billion in June, despite the modest monthly dip, or more than 30 percent higher than the $21 billion June 1987 level. What is more, the export surge is increasingly broad based, a good sign since it is not just limited to a handful of once-in-a-decade commercial aircraft shipments or stepped-up sales of temporarily higher-priced agricultural commodities.

As shown in the chart, it encompasses a wide array of products ranging from agricultural and construction machinery to telecommunications equipment to computers—all of which had suffered a severe erosion of global price competitiveness due to the relentless ascent of the dollar's external value prior to

270 Park Avenue, New York, NY 10017

February 1985. These products are now reclaiming lost market share and, since fat manufacturers' backlogs exist for many of these same products, it appears safe to assume that a sizable chunk of today's backlogs will be tomorrow's exports.

There is even some good news on the import side of the ledger, notwithstanding the fact that imports in June ran at a record high level of $39 billion. Reflecting the sweeping shift in the composition of economic growth in recent quarters, particularly the surge in investment spending and the flattening of consumer outlays (Financial Digest—August 15, 1988), the import mix has begun to shift as well. Capital goods imports, for example, accounted for nearly $1 of every $4 spent on foreign goods in June, up from about one fifth in June 1987.

The importance of this change should not be overlooked. Whereas the United States has been routinely criticized for years for consuming beyond its means, this argument is becoming increasingly stale, as an ever-larger proportion of overseas spending is devoted to products which add to productive capacity and labor efficiency—the wherewithal, in fact, to enhance global competi-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/10/88)	188,107	+ 1,086	+ 17,164
New York City (8/17/88)	38,260	− 134	+ 1,179
Commercial Paper (8/17/88)	419,868	+ 307	+ 73,805

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/10/88)	299,992	+ 16	+22,441
New York City (8/17/88)	56,951	− 1,149	+ 543

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/10/88)	897,735	+ 2,381	+70,768
New York City (8/17/88)	175,965	− 1,956	+ 4,058

Financial Markets

	Friday 8/26/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.55%	+ .28	+ 1.07
180-Day Bills†	7.87	− .05	+ 1.25
Longest Bills†	8.30	+ .06	+ 1.13
Recent Issues:			
8⅝s 8/31/90 (When Issued)	8.75	NA	
8¼s 6/30/92	8.99	+ .05	
9¼s 8/15/98	9.37	+ .04	
9⅛s 5/15/18	9.43	+ .03	
Municipals:			
Bond Buyer—20 Bond Index* (8/25/88)	7.80%	− .05	−0−
Blue List Total ($ Million)	$1,427	+ $119	− $345
30-Day Visible Supply ($ Million)	$ 786	− $428	− $198
Total	$2,213	− $309	− $543
Corporates:			
Moody's Aa Composite (8/25/88)	10.42%	+ .02	+ .53
30-Day Visible Supply ($ Million)	$5,177	+ $430	+ $690
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,017.43	+ 1.43	−621.92
Transportation	839.01	− 5.82	−223.03
Utilities	177.69	+ .35	− 27.32
65 Stocks	755.45	− .95	−208.43
N.Y.S.E. Composite Index	147.24	− .30	− 35.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	118,412	− 26,148	−57,402

*34% Taxable equivalent 11.82%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/26/88	Week Ago
Overnight	7.88%	7.81%
1 month	8.25	8.25
3 month	8.63	8.56
6 month	9.00	8.88
1 year	9.25	9.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/26/88)	Currency Per U.S. $	Week Ago
Belgium	39.04	39.74
Canada	1.2368	1.2237
France	6.3395	6.4300
Germany	1.8625	1.8962
Italy	1384.50	1405.00
Japan	133.83	133.45
Mexico	2273.00	2273.00
Netherlands	2.1035	2.1410
South Korea	721.70	722.70
Switzerland	1.5721	1.5955
Taiwan	28.70	28.62
U.K.*	1.6855	1.6996

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/26/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.2%	−0.6%

tiveness and to continue to export our way out of the current trade deficit. What is more, with operating rates in most domestic capital goods industries trending decidedly higher, and investment spending showing no sign of letting up, ~~the~~ availability of foreign capital goods plays an important role in sidestepping potential capacity bottlenecks.

A Stable Dollar?

These reasons partially explain why the foreign exchange markets looked beyond the June trade data and, within hours of their release, were again aggressively bidding the dollar higher. And, why not? With the trade picture brightening, the dollar's downside potential seems limited, as has proved to be the case for months now.

So, too, with the economy expanding vigorously and inflation accelerating, additional monetary policy restraint and higher interest rates seemed a sure bet—extending the limits of the dollar's upside potential. Or, so it appeared. However, the news that consumer prices rose only modestly last month and that big-ticket factory orders sagged in July could help keep a lid on interest rates here at the same time that they are rising abroad, delaying further dollar appreciation. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/24/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	229,450	– 1,484	+15,313
Loans to Depository Inst.	3,222	– .045	+ 2,310
Float	2,630	– .081	+ 2,500
Total Reserve Bank Credit	250,053	– 2,029	+19,067
Treasury Deposits with Federal Reserve Banks	3,116	+ .440	–0–
Currency in Circulation	235,641	– .825	+19,114
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225,105	+ .039	+43,028
	8/24/88		
Member Bank Reserves			
Total Reserves Held	60,652	– .139	+ 3,335
Excess (Deficiency)	1,025	+ .222	– .148
Net Free Reserves	451	+ .239	– .131

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (8/15/88)	780.0	+ 4.8	+ 4.9
M2 (8/15/88)	3,027.5	+ 4.0	+ 5.5
M3 (8/15/88)	3,823.4	+ 5.2	+ 6.0
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.[illegible]	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/26/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.28%	7.49%	7.73%
* Federal Agencies	8.15	8.20	8.20
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.71	9.09	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.95	9.15

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.70%	Sep.	8.17%
15- 29 days	7.95	Oct.	8.27
30- 59 days	8.13	Nov.	8.37
60- 89 days	8.20	Dec.	8.42
90-179 days	8.10	Jan.	8.52
180-239 days	7.90	Feb.	8.52
240-270 days	7.90		

‡ Industrial Paper—Prime			
30- 89 days	8.27%	† Federal Funds Effective Rate	8.15%
90-120 days	8.43		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,820r	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,988r	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.3r	3.4	5.0
Change in Consumer Prices*	Jul '88n	4.8%	3.6%	3.6%
C[illegible] in MH Cost of Living Index	Jul '88n	7.2%	4.8%	1.2%
Change in Producer Prices*	Jul '88	6.0%	4.8%	3.6% r
Civilian Employment (Thousands of Persons) †	Jul '88	115,059	115,018	112,639
Unemploy[illegible] % of Civilian Labor Force †	Jul '88	5.4%	5.3%	6.0%
Personal Incom[illegible]	Jul '88n	$ 4,071	$ 4,046r	$ 3,779
Leading Indicators Composite Index (1967=100) †	Jun '88	194.0	191.3	190.5
Industrial Production Index (1977=100) †	Jul '88n	137.7	136.6	130.6
Net Change in Consumer Installment Credit †	Jun '88	$ 5.43	$ 2.98	$ 6.65
U.S. Merchandise Trade Balance †	Jun '88n	–$ 12.54	–$ 9.76	–$ 15.06
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	Jul '88n	1,489	1,454	1,594
New Construction Expenditures*	Jun '88	$ 402.8	$ 402.3	$ 392.6
Total Business Inventories †	Jun '88	$ 733.9	$ 729.0	$ 680.5
Total Business Sales †	Jun '88	$ 490.6	$ 483.6	$ 453.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Combined Strengths

CIT TODAY

Second-quarter earnings double those of '87.

The CIT Group, a non-bank subsidiary of Manufacturers Hanover Corporation, reported second-quarter earnings of $31.8 million—more than double the $13.9 million earned in the 1987 quarter. Net income for the first six months of 1988 was $62.0 million versus $38.3 million last year—up 61.8 percent. Finance receivables were $10.4 billion.

"The results at CIT begin to underscore the potential of this organization," says John F. McGillicuddy, MHC Chairman and Chief Executive Officer. "In addition to efficiencies effected through the restructuring of CIT, charge-offs and operating expenses are substantially below last year's levels."

Comments Albert R. Gamper, Jr., Chairman and Chief Executive Officer of CIT, "In overhauling our business strategy, we made some dramatic changes in the way we traditionally did business. It's apparent our planning is paying off."

Strength on strength.

When we acquired CIT in 1984, it was already the premier source of asset-based financing. In order to strengthen and broaden the product offerings of CIT, two existing major non-bank subsidiaries of Manufacturers Hanover Corporation were transferred into The CIT Group.

Today, CIT is even more streamlined, performance-driven and profitable, with a strong emphasis on credit quality and lower operating expenses.

"It was the very prospect of combining our strengths with CIT's that excited us the most about the acquisition," states Mr. McGillicuddy. "That prospect has now been fulfilled."

Sharper market focus.

In response to market changes and growing competition, CIT is now focusing its activities on three major market segments: Corporate Finance, which includes business credit, capital financing, and equipment and project financing; Dealer and Manufacturer Financing, which includes industrial financing and sales financing; and Factoring. These products are available throughout our nationwide network of 55 offices in 21 states.

"We have in place a broad-based business finance company and that's what it should be—broad in geography and product reach," Mr. Gamper emphasizes. And then adds, "I expect CIT to surpass the earnings called for in our strategy for 1988."

MANUFACTURERS HANOVER
Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

Financial Digest

35380-2
9/12/88

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 19

Monday, September 12, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Economy Begins to Slow

The combination of a smaller-than-anticipated rise in nonfarm payroll employment and a flattening of wage growth in August has enhanced prospects for stability in both monetary policy and short-term interest rates in the weeks ahead. This is because evidence is now beginning to accumulate which suggests that the pace of business is slowing, and in so doing will help keep inflation in check. In turn, this should alleviate pressures on the Federal Reserve to tighten monetary policy further.

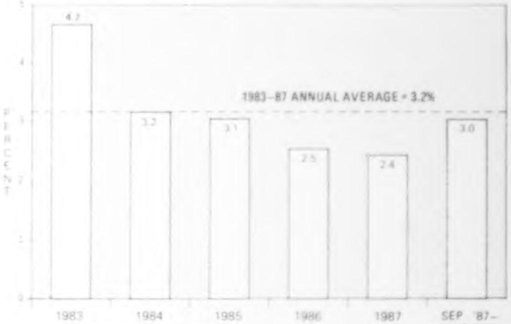
To be sure, while the inflation bears may well insist that the economic expansion is still too vigorous and needs to be reined in, this argument seems premature at best, and faulty at worst. For the August employment numbers are not the only ones signaling a softer economy and diminished price pressures; such economic statistics as factory orders, chain store sales and the index of leading economic indicators have weakened, too.

More than anything else, however, it was the August employment report that prompted a re-thinking of just how strong the economy really is and just how valid inflation fears are. According to the Labor Department, the unemployment rate rose to 5.6 percent of the civilian labor force in August, up from 5.4 percent in July. This marked the second straight monthly increase in the jobless rate since it touched a 14-year low of 5.2 percent in June. What is more, although the economy generated some 219,000 additional nonfarm payroll jobs in August, or about ten percent more than the 200,000 payroll jobs created in July, this increase was slightly below general expectations—as was the fact that data for July were revised sharply downward. To be sure, while such a mixed bag of statistics hardly seems sufficient evidence of a business slowdown, a look beneath the surface is more revealing.

Employment Growth Moderates

For one thing, employment growth is undoubtedly moderating. While last month's increase in payroll employment was still a big number, it was only about two-thirds the size of the average monthly jobs gain posted during the immediately preceding three months—not to mention the fact that it was also about one-third the size of the huge 568,000 person increase in payroll employment in June. For another, all of the employment gains occurred in the service sector—where multiple jobholding is rampant—while factory employment actually eased a bit in August.

PERCENT CHANGE IN THE
PRIVATE HOURLY EARNINGS INDEX
1983 — PRESENT



Source: Bureau of Labor Statistics

The distribution of the dip in factory jobs may also be indicative of slower domestic business activity. Although job gains remained sizable in such export-oriented industries as electrical machinery and chemicals, which continue to work off fat order backlogs (Financial Digest—August 29, 1988), employment declined in such domestically-oriented industries as textiles and furniture. What is more, when you consider that the length of the average factory workweek dipped slightly last month, it appears a good bet that industrial output flattened in August.

Such a subdued production pace augurs well for the near-term inflation outlook since it suggests that capacity-constrained growth—and subsequent price pressures—are further down the road than many had feared. Equally if not more important for the price outlook is the flattening of wage growth. Despite the repeated warnings by the bond-bashers that a wage-driven inflation spiral is imminent, one would be hard-pressed to tell it from the numbers. Average hourly earnings remained stable in August, after increasing only slightly in July; over the past year, as shown in the chart, hourly earnings have increased by just three percent—less than the

Copyright 1988 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

1983-87, five-year average of 3.2 percent. As if this wasn't a plus all by itself, most of the wage increases over the past year have been offset by productivity gains, keeping unit labor costs well contained.

If the moderation of employment growth in August was the only sign of a more subdued business pace, its potential implications would undoubtedly be dismissed as insignificant by the cottage industry of market "watchers" who micro-analyze each and every tree in the forest. However, it is not. Take, for example, the latest monthly survey of purchasing agents. According to the National Association of Purchasing Management, growth of the economy appeared to soften in August. This is because new export orders and factory output—which have been powering the business expansion all year long—slowed decidedly last month. What is more, there was similar news in the area of vendor performance—a closely watched statistic at the Federal Reserve these days. Although delivery schedules remained generally tight last month, the waiting period lessened somewhat.

Nor should this survey be looked upon as an isolated event, since it tends to confirm the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/88)	189,954	+ 1,352	+ 15,204
New York City (8/31/88)	38,341	− 150	+ 1,163
Commercial Paper (8/31/88)	422,083	+ 329	+ 73,274

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/88)	296,824	− 1,369	+15,677
New York City (8/31/88)	56,367	+ 619	− 754

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/88)	892,708	− 4,223	+48,013
New York City (8/31/88)	175,359	+ 2,640	− 2,991

Financial Markets

	Friday 9/8/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.51%	+ .08	+ .97
180-Day Bills†	7.79	+ .03	+ 1.03
Longest Bills†	8.06	+ .03	+ .46
Recent Issues:			
8 5/8s 8/31/90	8.40	+ .02	
8 1/4s 6/30/92	8.57	+ .02	
9 1/4s 8/10/98	8.93	− .05	
9 1/8s 5/15/18	9.00	− .03	
Municipals:			
Bond Buyer—20 Bond Index* (9/8/88)	7.67%	− .09	− .71
Blue List Total ($ Million)	$1,213	− $ 3	−$ 317
30-Day Visible Supply ($ Million)	$1,771	+ $381	−$ 32
Total	$2,984	+ $378	−$ 349
Corporates:			
Moody's Aa Composite (9/8/88)	10.20%	− .17	− .13
30-Day Visible Supply ($ Million)	$4,778	+ $308	−$1,811
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,068.81	+ 14.22	−539.93
Transportation	873.81	+ 16.58	−158.72
Utilities	179.94	− .71	− 19.98
65 Stocks	776.64	+ 6.77	−170.01
N.Y.S.E. Composite Index	150.84	+ 1.18	− 29.18
N.Y.S.E. Avg. Daily Vol. for Week (000's)	136,140	+ 7,302	−54,996

*34% Taxable equivalent 11.62%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/9/88	Week Ago
Overnight	7.94%	8.13%
1 month	8.19	8.25
3 month	8.13	8.44
6 month	8.56	8.81
1 year	8.75	8.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/9/88)	Currency Per U.S. $	Week Ago
Belgium	38.73	39.32
Canada	1.2377	1.2362
France	6.2710	6.3620
Germany	1.8450	1.8660
Italy	1381.05	1390.25
Japan	133.28	136.78
Mexico	2273.00	2273.00
Netherlands	2.0370	2.1100
South Korea	720.40	722.10
Switzerland	1.5604	1.5727
Taiwan	28.80	28.78
U.K.*	1.7087	1.6720

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/9/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	−0.4%	−3.4%

softening of a whole host of other economic statistics. These range from a sizable slump in factory orders in July, to a big drop in new home sales in the same month to a flattening of the index of leading economic indicators over the past three months. In fact, very few of the routine monthly economic statistics are signaling anything but an emerging economic slowdown, despite the dire protestations to the contrary from the inflation alarmists.

Don't Bet On A Tighter Fed Policy

Against this backdrop, the likelihood of another round of monetary firming along with higher short-term interest rates seems to be receding almost as quickly as the hours of daylight in the northern hemisphere. The Federal Reserve's repeated tightenings of the credit reins this past spring have had the intended effect of slowing the economy and muting inflation pressures. Anything more at this point would not only be a case of overkill but, with business credit demands weak, the monetary aggregates well behaved and industrial commodity and precious metals prices slumping, difficult to justify. Indeed, a month or two from now, we might even be hearing some voices suggesting that the Fed turn toward ease. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	9/7/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	231.225	+ 1.016	+13.693
Loans to Depository Inst.	2.844	− .498	+ 2.096
Float	1.191	+ .690	+ .346
Total Reserve Bank Credit	253.002	+ 1.128	+18.148
Treasury Deposits with Federal Reserve Banks	3.178	− .547	− .520
Currency in Circulation	237.046	+ 1.880	+18.751
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	226.814	+ 3.296	+42.932
	9/7/88		
Member Bank Reserves:			
Total Reserves Held	60.366	− .206	+ 2.715
Excess (Deficiency)	1.049	+ .067	− .145
Net Free Reserves	.438	+ .030	− .282
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (8/29/88)	82.6	+ 6.7	+ 4.8
M2 (8/29/88)	3,0[illegible]3.6	+ 3.7	+ 5.6
M3 (8/29/88)	3,849.1	+ 6.8	+ 6.6
Domestic Nonfinancial Debt (Ist Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/9/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.30%	7.44%	7.53%
* Federal Agencies	7.80	7.85	7.95
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.53	8.86	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.27	8.58	8.65

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.70%	Oct.	8.07%
15- 29 days	7.95	Nov.	8.06
30- 59 days	8.13	Dec.	8.08
60- 89 days	8.20	Jan.	8.20
90-179 days	8.10	Feb.	8.20
180-239 days	7.90	Mar.	8.19
240-270 days	7.90		

‡ Industrial Paper—Prime			
30- 89 days	8.10%	† Federal Funds	
90-120 days	8.18	Effective Rate	8.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,820	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,988	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.3	3.4	5.0
Change in Consumer Prices*	Jul '88	4.8%	3.6%	3.6%
Change in MH Cost of Living Index	Jul '88	7.2%	4.8%	1.2%
Change in Producer Prices*	Aug '88n	7.2%	6.0%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '88n	115,180	115,059	113,050
Unemployment as % of Civilian Labor Force †	Aug '88n	5.6%	5.4%	6.0%
Personal Income*	Jul '88	$ 4,071	$ 4,046	$ 3,779
Leading Indicators Composite Index (1967=100) †	Jul '88n	192.1	193.7r	190.9
Industrial Production Index (1977=100) †	Jul '88	137.7	136.6	130.6
Net Change in Consumer Installment Credit †	Jul '88n	$ 2.57	$ 8.05r	$ 5.63
U.S. Merchandise Trade Balance †	Jun '88	−$ 12.54	−$ 9.76	−$ 15.06
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	Jul '88	1,489	1,454	1,594
New Construction Expenditures*	Jul '88n	$ 401.0	$ 396.2r	$ 398.9
Total Business Inventories †	Jun '88	$ 733.9	$ 729.0	$ 680.5
Total Business Sales †	Jun '88	$ 490.6	$ 483.6	$ 453.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

This announcement appears as a matter of record only.

PHILLIPS 66

Long-Term Stock Savings Plan of
Phillips Petroleum Company and Trust

$250,000,000
Tax Advantaged Variable Rate ESOP Notes
in Five Series of $50,000,000 each

An irrevocable letter of credit has been issued for each series.

Series A — Credit Lyonnais
Series B — Deutsche Bank AG
Series C — The Fuji Bank, Limited
Series D — National Westminster Bank PLC
Series E — Union Bank of Switzerland

Manufacturers Hanover Trust Company acted as financial advisor to The Phillips Petroleum Company in this transaction and acts as Placement and Remarketing Agent for these notes.

July 1988

The Investment Banking Group

MANUFACTURERS HANOVER
Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

B5350-2
10/3/88

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 20

Monday, September 26, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Foreign Trade Improves Markedly

The announcement that the U.S. trade deficit narrowed to a seasonally adjusted $9.53 billion in July, a development not totally unexpected in the foreign exchange community (Financial Digest–August 29, 1988), has provided further evidence that the trade corner has been decisively turned. July's trade figure, which was the smallest monthly shortfall in more than three and a half years, was welcomed by all the financial markets, as the dollar, as well as the stock and the bond markets, posted significant gains in response.

Even the upward revision of June's already hefty deficit failed to dampen the markets' enthusiasm. Initially estimated at $12.54 billion, this figure was increased to $13.22 billion, the largest monthly deficit since February. Nevertheless, the average monthly trade deficit for the three months ending in July fell to $10.83 billion, a figure more than ten percent below the $12.14 billion monthly average recorded in the previous three months and almost 25 percent smaller than the $14.34 billion monthly average posted during the same period in 1987. What is more, the trade deficit so far this year annualizes to $138 billion, compared with last year's record $170 billion shortfall.

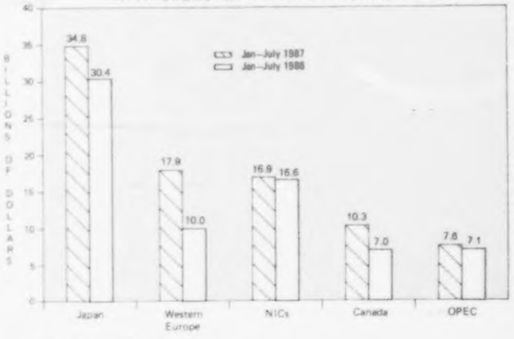
The Deficit Shrinks Worldwide

Most of July's improvement came on the import side of the ledger, a reflection of the slowdown in consumer demand that has occurred in recent months. Imports of consumer goods, for example, fell 10½ percent in July, the largest month-over-month decline in this category since at least 1986. Not only were July's foreign purchases down substantially from the previous month's record, but they were even down from year-ago levels. The slowdown in U.S. economic activity since bodes well for further reductions in foreign purchases.

There was also good news on the export front. Although the rate of growth of foreign sales has decelerated from the rapid clip of earlier this year, the trend is still decisively upward. Exports in July totaled $26.47 billion, up modestly from $26.28 billion in June, bringing the seven-month total to $182.15 billion, more than 28 percent above 1987's same period figure. What is more, there is a good chance that the pace may accelerate again, given the fat order backlogs existing in most export industries and the pickup in economic growth rates of many of our trading partners.

Looking regionally, the United States has pared its trade deficit–in some instances quite substantially–with virtually all of its trading partners this year, largely due to the considerable decline of the dollar since February 1985 (see chart). The biggest improvement has been with the countries of Western Europe. Although the size of the deficit with this group widened a bit last month to $2.3 billion, this does not detract from the substantial progress made to date.

U.S. MERCHANDISE TRADE DEFICIT WITH SELECTED TRADING PARTNERS



Source: Commerce Department

During the first seven months of this year, the U.S. nearly halved its trade deficit with Western Europe to less than $10 billion from almost $18 billion a year earlier. During the same period, the U.S. also reduced its shortfall with Japan by more than $4 billion to $30.4 billion, while our deficit with Canada diminished by over $3 billion, to $7 billion. And, although a great deal more needs to be done in narrowing the deficit with the newly industrialized countries of East Asia (the NICs), even here, there are signs that the trade gap is stabilizing. The U.S. trade deficit with the NICs (Taiwan, South Korea, Hong Kong, and Singapore) narrowed modestly by some $400 million to $16.6 billion during the first seven

Manufacturers Hanover
Economics
Department
17/270

270 Park Avenue, New York, NY 10017

months of this year from the January-July period in 1987.

A Halt To The Dollar's Rise

Although the foreign exchange markets' initial reaction to the good trade data was to push the dollar sharply higher, further appreciation has been capped by fears of central bank intervention. Both the Federal Reserve and the German Bundesbank sold dollars in the open market in an effort to break the greenback's advance and to give the forex markets a sign that the central banks want the dollar to remain where it is. This is because they are concerned that a major upward move of the dollar would choke off the U.S. export recovery, thereby inhibiting further progress in reducing the trade deficit. At the same time, however, any additional declines of the dollar would be counterproductive as they would raise import prices further while pressing industries whose capacity use is already tight.

Fear of central bank intervention is not all that's taking some of the steam out of the dollar's advance. One of the major dollar props over the summer had been the rising trend in U.S. interest rates and the perception that the still-strong performance of the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/88)	191,427	+ 391	+ 18,155
New York City (9/14/88)	38,298	– 229	+ 986
Commercial Paper (9/14/88)	414,092	– 5,333	+ 59,843

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/88)	296,869	+ 52	+15,149
New York City (9/14/88)	56,964	+ 340	– 1,257

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/88)	897,068	– 1,098	+50,958
New York City (9/14/88)	173,851	– 2,101	– 4,519

Financial Markets

	Friday 9/23/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.44%	+ .08	+ .76
180-Day Bills†	7.82	+ .08	+ .63
Longest Bills†	8.09	+ .11	+ .38
Recent Issues:			
$8\frac{5}{8}$s 8/31/91	8.42	+ .06	
$8\frac{1}{4}$s 6/30/92	8.62	+ .05	
$9\frac{1}{4}$s 8/10/98	8.95	+ .03	
$9\frac{1}{8}$s 5/15/18	9.05	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (9/22/88)	7.62%	+ .03	– .68
Blue List Total ($ Million)	$1,454	+ $ 270	–$ 86
30-Day Visible Supply ($ Million)	$1,165	– $ 556	–$ 643
Total	$2,619	– $ 286	–$ 729
Corporates:			
Moody's Aa Composite (9/22/88)	9.94%	– .11	– .48
30-Day Visible Supply ($ Million)	$4,822	+ $1,264	+$1,370
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,090.68	– 7.47	–479.49
Transportation	892.32	+ 16.28	–140.87
Utilities	179.71	– .53	– 16.24
65 Stocks	785.84	+ 1.97	–150.11
N.Y.S.E. Composite Index	152.38	– .41	– 26.76
N.Y.S.E. Avg. Daily Vol. for Week (000's)	140,332	– 25,050	–36,314

*34% Taxable equivalent 11.55%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/23/88	Week Ago
Overnight	8.00%	7.94%
1 month	8.13	8.19
3 month	8.19	8.25
6 month	8.50	8.50
1 year	8.69	8.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/23/88)	Currency Per U.S. $	Week Ago
Belgium	39.33	39.36
Canada	1.2205	1.2235
France	6.4020	6.3800
Germany	1.8765	1.8778
Italy	1401.25	1399.00
Japan	134.55	134.24
Mexico	2273.00	2273.00
Netherlands	2.1155	2.1175
South Korea	719.90	720.00
Switzerland	1.5850	1.5825
Taiwan	28.93	28.90
U.K.*	1.6695	1.6738

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/23/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.2%	–2.5%

U.S. economy would lead to additional tightening of monetary policy by the Federal Reserve and even higher U.S. interest rates. This perception has been diminished, however, by recent signs that the pace of U.S. economic activity may be slowing.

The substantial drop in imports during July, the easing of retail sales in August and the virtual flattening of industrial production and industry operating rates last month, all provide evidence that the Federal Reserve's tightening of monetary policy earlier this year has already produced the desired results, thereby reducing the likelihood of any further increases in U.S. interest rates. Thus, the probability of steady U.S. rates for the foreseeable future may have lessened some of the dollar's "high yield" allure.

But while fear of central bank intervention and the likelihood of stable U.S. interest rates may limit the dollar's appreciation in coming weeks, it may not stop it altogether. This is because if July's trade deficit is only a harbinger of more pronounced improvements down the road, it won't be too long before the forex markets decisively test the central banks' resolve to maintain stable exchange rates. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	9/21/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	236.913	+ 4.394	+ 3.493
Loans to Depository Inst.	2.911	– .120	+ 1.935
Float	.971	– .212	+ .149
Total Reserve Bank Credit	258.496	+ 3.584	+ 6.584
Treasury Deposits with Federal Reserve Banks	8.971	+ 4.985	–12.676
Currency in Circulation	236.170	– 1.284	+18.708
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	223.989	– 3.343	+42.117
	9/21/88		
Member Bank Reserves:			
Total Reserves Held	61.386	+ .812	+ 3.851
Excess (Deficiency)	.795	– .304	+ .280
Net Borrowed Reserves	.101	+ .589	+ .146
		‡ % Change Since	
Monetary Aggregates †	–	3 Months Ago*	Year Ago
M1 (9/12/88)	782.1	+ 5.9	+ 4.9
M2 (9/12/88)	3,037.1	+ 3.1	+ 5.6
M3 (9/12/88)	3,853.4	+ 6.4	+ 6.6
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/23/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.24%	7.46%	7.55%
* Federal Agencies	8.12	8.36	8.50
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.33	8.71	8.94
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.10	8.40	8.45

‡ Finance Company Paper—Prime	
5- 14 days	8.00%
15- 29 days	8.00
30- 59 days	8.00
60- 89 days	8.05
90-179 days	8.13
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances	
Oct.	7.98%
Nov.	7.98
Dec.	8.00
Jan.	8.07
Feb.	8.08
Mar.	8.08

‡ Industrial Paper—Prime	
30- 89 days	8.05%
90-120 days	8.10

† Federal Funds Effective Rate 8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,820	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,985r	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.0r	3.4	5.0
Change in Consumer Prices*	Aug '88n	4.8%	4.8%	3.6%
Change in MH Cost of Living Index	Aug '88n	2.4%	7.2%	3.6%
Change in Producer Prices*	Aug '88	7.2%	6.0%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '88	115,180	115,059	113,050
Unemployment as % of Civilian Labor Force †	Aug '88	5.6%	5.4%	6.0%
Personal Income*	Aug '88n	$ 4,079	$ 4,071	$ 3,804
Leading Indicators Composite Index (1967=100) †	Jul '88	192.1	193.7	190.9
Industrial Production Index (1977=100) †	Aug '88n	138.2	137.9r	131.2
Net Change in Consumer Installment Credit †	Jul '88	$ 2.57	$ 8.05	$ 5.63
U.S. Merchandise Trade Balance †	Jul '88n	–$ 9.53	–$ 13.22r	–$ 13.88
Plant and Equipment Expenditures*	4th Q'88n	$444.40(a)	$440.42r	$406.82r
Private Housing Starts (Thousands of Units)*	Aug '88n	1,436	1,485r	1,583
New Construction Expenditures*	Jul '88	$ 401.0	$ 396.2	$ 398.9
Total Business Inventories †	Jul '88n	$ 733.7	$ 731.5r	$ 681.1r
Total Business Sales †	Jul '88n	$ 487.7	$ 488.8r	$ 453.5r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Market Access

Money Market Placing Power

Bergen Bank Corporation

$500,000,000
Commercial Paper Program

Formosa Plastics Corporation, U.S.A.

$100,000,000
Eurocommercial Paper Programme

Fireman's Fund Mortgage Corporation

$650,000,000
Eurocommercial Paper Programme

Lomas Bankers Corp.

$200,000,000
Commercial Paper Program

Yamaha Motor International Finance of BV

$200,000,000
Eurocommercial Paper Programme

Yamaha Motor Finance Corporation, U.S.A.

$200,000,000
Commercial Paper Programme

LEP Group PLC

£100,000,000
Eurocommercial Paper Programme and Sterling Commercial Paper Programme

The Investment Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial Digest

B 5350-2
10/20/88

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 21

Friday, October 7, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Financial Market Blues

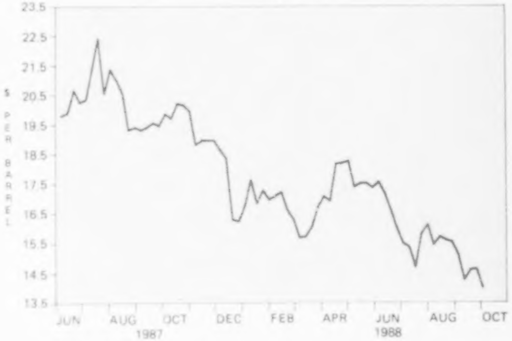
With the first anniversary of the great stock market collapse of October 1987 quickly approaching, the common characteristic of virtually all the financial markets, ranging from the long-term bond market to the stock market to the foreign exchange market, seems to be lethargy. After moving decidedly lower in recent weeks, long-term Treasury bond yields, for example, have become stuck in the neighborhood of nine percent—exactly where they stood at the end of last year—equity prices have been locked within a narrow trading range all year long and the ascent of the dollar in the foreign exchange markets has been capped for the moment by the certainty of central bank intervention at dollar levels any higher than where they are now.

Some of today's "wait-and-see" inactivity stems from the uncertainty surrounding the upcoming Presidential elections. However, the malaise probably runs much deeper than this, and stems largely from an almost total lack of conviction among market participants as to where the economy, inflation rates and interest rates will be, say, six months from now—and there is little on the horizon which will provide clear-cut evidence of what's ahead.

To be sure, it might be argued that the lethargy in the financial markets is a reflection not of uncertainty, but rather, exhaustion. After all, in the months immediately following the October stock price roll-back, the widespread expectation was that another shoe would soon drop, this time in the form of a global economic slump, or perhaps even worse. It wasn't until mid-spring before it became obvious–that such a business downturn would not materialize, and that the economy was still expanding.

However, no sooner had the fear of global recession subsided, than it was supplanted by concerns that the pace of business here and abroad was "too strong," and that a decided acceleration in the rate of inflation was just around the corner. Indeed, with the onset of spring, out came the crop of inflation bears—the financial market equivalent of dandelions. The bond-bashers had a field day for a while, "one-upping" each other with dire predictions as to how high the inflation rate would surge, how tight monetary policy would become and at what heights long-term interest rates would peak. Even the Federal Reserve was moved, repeatedly tightening monetary policy this spring.

SPOT OIL PRICE
WEST TEXAS INTERMEDIATE



Source: Wall Street Journal

The Case For Optimism

Only now is this year's inflation scare abating, and with good reason. Although the markets have yet to fully accept the fact, the weight of available economic evidence is beginning to tip the scales in the direction of somewhat slower economic growth in the months ahead, and the continued containment of inflation pressures. Retail sales remain as lackluster as they were several months ago, the housing picture is weak, industrial output growth is slowing and personal income gains are anemic. What is more, the results of the most recent September survey of the nation's purchasing agents again suggest that the economy is losing some of its forward momentum, notwithstanding continued employment gains and export order strength.

Any slowing of growth will lend support to bond and equity market psychology since it would reaffirm the growing view that the inflation reality is not only less threatening than earlier believed, but is actually fading. Consumer prices continue to rise at a modest clip, late summer rains have alleviated drought conditions in the Midwest, wages remain in check and industrial commodity

270 Park Avenue, New York, NY 10017

prices have topped out. To reinforce matters, energy prices are again headed south.

With inventories high, and OPEC unable, or unwilling, to trim production, oil prices have softened steadily in recent weeks and could actually be headed for another tumble. As shown in the chart on page 1, spot prices of West Texas Intermediate crude, the U.S. benchmark, have already dropped by more than $5 per barrel since the spring to their lowest level in over two years. As recent price declines work their way through to the retail level, consumer prices in general will be held in check.

Will The Other Shoe Drop?

While one can build the case for optimism—moderate growth and modest inflation—words alone cannot banish the uncertainties surrounding the business or interest rate outlook or, for that matter, break the existing logjam in the financial markets. For that to happen, the Federal Reserve would have to switch its policy stance. With economic growth moderating, the inflation outlook brightening, money supply growth well-behaved and credit demand soft, a slight shift toward ease at some point may not be all that far-fetched.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/88)	193,268	+ 872	+ 18,095
New York City (9/28/88)	38,889	– 12	+ 1,998
Commercial Paper (9/28/88)	420,797	– 70	+ 60,624

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/88)	297,049	+ 506	+12,687
New York City (9/28/88)	56,640	– 116	– 2,730

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/88)	896,496	+ 2,065	+42,755
New York City (9/[illegible]5/88)	171,972	– 1,958	– 7,520

Financial Markets

	Friday 10/7/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	7.48%	–0–	+ .52
180-Day Bills †	7.82	– .02	+ .14
Longest Bills †	7.99	– .13	– .22
Recent Issues:			
8 1/2s 9/30/90	8.22	– .18	
8 3/4s 9/30/92	8.37	– .19	
9 1/4s 8/10/98	8.68	– .16	
9 1/8s 5/15/18	8.80	– .17	
Municipals:			
Bond Buyer–20 Bond Index* (10/6/88)	7.53%	– .11	– 1.13
Blue List Total ($ Million)	$1,298	– $ 64	–$ 122
30-Day Visible Supply ($ Million)	$1,974	+ $313	–$ 233
Total	$3,272	+ $249	–$ 355
Corporates:			
Moody's Aa Composite (10/6/88)	9.77%	+ .09	– .96
30-Day Visible Supply ($ Million)	$5,028	+ $290	+$2,118
Stocks:			
*Dow-Jones Averages:			
Industrials	2,150.25	+ 37.34	–331.96
Transportation	929.21	+ 22.25	–107.67
Utilities	187.47	+ 5.93	– 8.59
65 Stocks	812.82	+ 17.37	–105.83
N.Y.S.E. Composite Index	156.81	+ 3.24	– 17.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	170,522	+ 41,580	– 5,523

*34% Taxable equivalent 11.41%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/7/88	Week Ago
Overnight	8.13%	8.13%
1 month	8.18	8.25
3 month	8.44	8.56
6 month	8.50	8.63
1 year	8.63	8.75

FOREIGN EXCHANGE SPOT RATES New York Opening (10/7/88)	Currency Per U.S. $	Week Ago
Belgium	39.99	39.38
Canada	1.2100	1.2159
France	6.3385	6.4020
Germany	1.8595	1.8796
Italy	1387.00	1400.00
Japan	133.20	134.58
Mexico	2273.00	2273.00
Netherlands	2.1025	2.1195
South Korea	717.20	718.95
Switzerland	1.5810	1.5840
Taiwan	28.93	28.93
U.K.*	1.7015	1.6860

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/7/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	–0.5%	–2.7

BEST AVAILABLE COPY

Nevertheless, that point has not yet been reached. It is certainly unlikely that Fed policy will be altered in any direction until after the elections, and until such time as more September economic statistics are available, either confirming the August business slowdown or, as some believe, pointing in the direction of a reacceleration of economic activity. According to this view, when the transitory effects on the economy of drought and hot weather are stripped away, signs of a business slowdown are few and far between.

Within the not-too-distant future, one of these views will be validated. Since the consensus of the day currently favors the stronger growth, more restraint scenario, it is hardly surprising that the equity market is treading water and long-term bond prices remain vulnerable. With little recent movement in either of these markets, the foreign exchange market too, has quieted.

However, while the financial markets continue to wait for the other shoe to drop, surprises do happen. One or two soft September economic numbers could produce a pleasant surprise for the markets—in contrast to that which occurred just about a year ago. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	10/5/88	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	236.658	– 1.040	+17.126
Loans to Depository Inst.	2.621	+ .364	+ 1.428
Float	1.353	+ .414	+ .476
Total Reserve Bank Credit	258.706	– .603	+20.798
Treasury Deposits with Federal Reserve Banks	9.890	– 2.319	+ 4.549
Currency in Circulation	235.859	+ .763	+18.427
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.395	+ 1.318	+37.958
	10/5/88		
Member Bank Reserves:			
Total Reserves Held	60.134	– 1.052	+ 2.904
Excess (Deficiency)	1.310	+ .531	+ .477
Net Free Reserves	.575	+ .692	+ .468
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (9/26/88)	784.9	+ 4.1	+ 4.9
M2 (9/26/88)	3,032.5	+ 2.7	+ 5.4
M3 (9/26/88)	3,851.3	+ 5.8	+ 6.4
Domestic Nonfinancial Debt (2nd Q'88)	8,654.0	+ 8.1	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/7/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.26%	7.41%	7.45%
* Federal Agencies	8.12	8.24	8.40
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.33	8.71	8.79
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.28	8.40	8.49

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Nov.	8.01%
15- 29 days	8.00	Dec.	8.03
30- 59 days	8.00	Jan.	8.10
60- 89 days	8.05	Feb.	8.10
90-179 days	8.13	Mar.	8.10
180-239 days	8.00	Apr.	8.10
240-270 days	8.00		

‡ Industrial Paper—Prime			
30- 89 days	8.11%	† Federal Funds	
90-120 days	8.20	Effective Rate	8.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,824	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'68	$ 3,985	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.0	3.4	5.0
Change in Consumer Prices*	Aug '88	4.8%	4.8%	4.8%
Change in MH Cost of Living Index	Aug '88	2.4%	7.2%	3.6%
Change in Producer Prices*	Aug '88	7.2%	6.0%	3.6%
Civilian Employment (Thousands of Persons) †	Sep '88n	115,328	115,180	112,872
Unemployment as % of Civilian Labor Force †	Sep '88n	5.4%	5.6%	5.9%
Personal Income*	Aug '88	$ 4,079	$ 4,071	$ 3,804
Leading Indicators Composite Index (1967=100) †	Aug '88n	193.4	192.7r	191.7
Industrial Production Index (1977=100) †	Aug '88	138.2	137.9	131.2
Net Change in Consumer Instalment Credit †	Aug '88n	$ 5.44	$ 3.62r	$ 4.68
U.S. Merchandise Trade Balance †	Jul '88	–$ 9.53	–$ 13.22	–$ 13.88
Plant and Equipment Expenditures*	4th Q'88	$444.40(a)	$440.42(a)	$406.82
Private Housing Starts (Thousands of Units)*	Aug '88	1,436	1,485	1,583
New Construction Expenditures*	Aug '88n	$ 396.1	$ 398.3r	$ 398.3
Total Business Inventories †	Jul '88	$ 733.7	$ 731.5	$ 681.1
Total Business Sales †	Jul '88	$ 487.7	$ 488.8	$ 453.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Excelente

To those who accomplish the extraordinary…

Francisco Goya, 1746-1828 General Palafox on Horseback, 1814 Museo del Prado, Madrid

Manufacturers Hanover Trust offers Private Banking, which is equally extraordinary. It is banking, credit, personal trust and investment services. Provided personally, creatively, and above all, with equal dedication. For more information, please call Dolores H. Brown, Vice President at (212) 286-6226.

Goya and the
Spirit of Enlightenment.
Metropolitan Museum of Art
April 23 - July 6, 1989.

The exhibition is
made possible by grants from
Manufacturers Hanover
and
The New York Stock
Exchange Foundation, Inc.

The Private Banking and Investment Group

Equal Opportunity Lender
© 1989 Manufacturers Hanover. All Rights Reserved. Member FDIC.

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

Financial
Digest

B5350-2
10/28/88

MANUFACTURERS HANOVER

Financial Digest

Volume XXV, Number 22

Monday, October 24, 1988

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Dollar Takes a Tumble

Although the stock and bond markets continue to meander in a generally sideways direction, the same can no longer be said of the foreign exchange market (Financial Digest–October 7, 1988). After fluctuating within relatively narrow ranges during much of the summer, the dollar broke decidedly lower over the past two weeks, depreciating by some five percent against the Japanese yen and by nearly three percent versus the German mark. In a nutshell, the decided, and sudden, shift in market psychology from dollar bullishness to bearishness was prompted by mounting evidence of a slowing economy, fast-fading expectations of higher interest rates and a widening of the trade deficit in August. These developments diminished both the dollar's "high-yield" and "fundamental" allures.

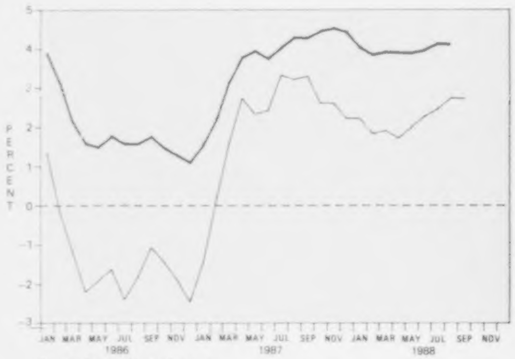
The immediate catalyst for the dollar sell-off, which reversed most of its early-summer gains, was the release of the September employment report. According to the Labor Department, total nonfarm payroll employment chalked up a seemingly solid 255,000 person gain in September, or just slightly below general expectations. However, it was not the overall number which triggered a rethinking of the economy's presumed vigor and the likelihood of higher interest rates, but rather the distribution of last month's employment increase and the sizable downward revision of the initial estimate of the number of jobs created in August–both of which indicated a further slowing of the economy.

With nearly 100,000, or some two-fifths of the September jobs increase occurring in state and local governments, largely public school teachers, and manufacturing employment easing for the second month in a row, fears that a severely labor- and capacity-constrained manufacturing sector would soon be contributing to upward price pressures seemed more exaggerated than ever. What is more, the 50,000 person, or better than 20 percent, downward revision of initial estimates of payroll employment growth in August suggested that economic activity in that month was even weaker than originally thought.

Monetary Policy Outlook in Transition

Nor were the employment numbers the only signs that the economy was at least temporarily losing some of its forward momentum. Among the others were such recent economic statistics as September retail sales, industrial production and factory operating rates, all of which are now unambiguously signaling the same thing.

12-MONTH PERCENT CHANGES:
CPI (THICK) VS. PPI (THIN)



Source: Bureau of Labor Statistics

To be sure, a cooling economy lengthens the odds that the Federal Reserve will be tightening monetary policy again–expectations of which had buttressed the dollar's external value until a week or so ago. But, it isn't the only thing. So does the fact that the inflation rate remains in check. As shown in the chart, the rates of both producer and consumer price inflation have changed little over the past year and, with oil prices slumping, industrial commodity prices topping out and wage growth remaining restrained, may even ebb in the months ahead. Taken together, diminished inflation pressures and a more subdued pace of business at least raise the possibility that the next turn of the monetary policy dial may be toward ease, as opposed to restraint.

270 Park Avenue, New York, NY 10017

The Trade Deficit Widens

The dashing of higher interest rate expectations triggered the initial dollar slide. The widening of the trade deficit in August reinforced it. For while the economic tempo may be slowing sufficiently to put a lid on interest rates, it has not cooled enough to put a cap on imports. Paced by a sizable upturn in consumer and capital goods imports, total imports rose to a record monthly level of $39.7 billion in August, and the trade deficit widened to a seasonally adjusted $12.1 billion in the month. This was far above the July red-ink total of $9.5 billion.

The uneven pace of trade balance improvement, especially with Japan, again fueled speculation that the dollar will have to move decidedly lower in coming months in order to narrow the trade gap further. While this line of reasoning ignores the fact that exports, too, surged to a record level in August, that trade with Western Europe, outside of Germany, is generally in balance and that the run-up in oil imports in August was probably a one-shot development, as purchasers stocked up in the wake of slumping prices, it is making the rounds and is unlikely to recede until the monthly deficits begin to narrow again.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/5/88)	194,313	+ 1,460	+ 14,687
New York City (10/12/88)	40,030	+ 90	+ 1,402
Commercial Paper (10/12/88)	423,921	– 112	+ 62,284

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/5/88)	298,747	+ 2,205	+12,151
New York City (10/12/88)	56,370	+ 440	– 2,741

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/5/86)	899,084	+ 4,373	+42,435
New York City (10/12/88)	172,801	+ 2,067	– 4,565

Financial Markets

	Friday 10/21/88	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	7.68%	+ .14	+ 2.34
180-Day Bills †	7.98	+ .19	+ 1.82
Longest Bills †	8.13	+ .09	+ 1.22
Recent Issues:			
8 1/2s 9/30/90	8.35	+ .06	
8 3/4s 9/30/92	8.50	+ .05	
9 1/4s 8/10/98	8.82	+ .03	
9 1/8s 5/15/18	8.90	+ .02	
Municipals:			
Bond Buyer—20 Bond Index* (10/20/88)	7.45%	– .07	– 1.27
Blue List Total ($ Million)	$1,181	+ $ 69	+$ 124
30-Day Visible Supply ($ Million)	$2,806	– $173	+$ 996
Total	$3,987	– $104	+$1,120
Corporates:			
Moody's Aa Composite (10/20/88)	9.67%	– .04	– 1.21
30-Day Visible Supply ($ Million)	$5,493	+ $635	+$1,913
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,182.97	+ 49.79	+232.21
Transportation	937.35	+ 22.24	+188.40
Utilities	186.70	+ 3.20	+ 2.88
65 Stocks	821.21	+ 18.28	+ 98.74
N.Y.S.E. Composite Index	159.42	+ 3.96	+ 20.24
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,516	+ 24,482	–288,496

***34% Taxable equivalent 11.29%.**

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/21/88	Week Ago
Overnight	8.19%	7.94%
1 month	8.25	8.19
3 month	8.56	8.50
6 month	8.56	8.50
1 year	8.69	8.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/21/88)	Currency Per U.S. $	Week Ago
Belgium	37.71	38.16
Canada	1.2029	1.2049
France	6.1545	6.2030
Germany	1.7888	1.8205
Italy	1335.00	1357.25
Japan	126.73	127.58
Mexico	2273.00	2273.00
Netherlands	2.0185	2.0525
South Korea	705.60	710.30
Switzerland	1.5150	1.5240
Taiwan	28.74	28.90
U.K.*	1.7582	1.7465

***U.S. $ per U.K. pound**

MH TRADE-WEIGHTED DOLLAR (10/21/88) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/8
	–0.5%	–3.8%

BEST AVAILABLE COPY

Nevertheless, the dollar's near-term direction is not a foregone conclusion. Although unlikely, if the current slowing of the economy turns out to be just a pause, it will not be too long before the inflation bears are again "one upping" each other as to how tight monetary policy should be and at what heights interest rates will peak—expectations of which would again put some upward bounce in the dollar. Nor is it a certain bet that the August trade data are any more reflective of a new trade balance trend than the "single digit", $9.5 billion July number was; if it is not, then a limited degree of dollar strength will soon reemerge.

Even the dollar's pronounced weakness versus the mightly yen may be somewhat misleading. It could be partially related to the public offering of the third tranche of Nippon Telegraph and Telephone Corp. stock, valued at about $24 billion; it has been rumored that Japanese financial institutions may have been big sellers of dollar-denominated assets, raising funds in order to participate in what is this year's largest common stock offering. In this uncertain environment, counting the dollar out could be premature. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/19/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	233.150	– .111	+ 9.231
Loans to Depository Inst.	2.283	+ .159	+ 1.172
Float	1.751	+ .486	+ .872
Total Reserve Bank Credit	255.586	+ .104	+13.142
Treasury Deposits with Federal Reserve Banks	5.470	+ .259	– 6.721
Currency in Circulation	237.898	+ .291	+18.798
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	227.037	+ .826	+38.722
	10/19/88		
Member Bank Reserves:			
Total Reserves Held	61.226	+ 1.160	+ 3.182
Excess (Deficiency)	1.050	– .136	+ .083
Net Free Reserves	.527	+ .075	+ .085
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (10/10/88)	784.5	+ 2.1	+ 4.5
M2 (10/10/88)	3,035.5	+ 1.8	+ 5.1
M3 (10/10/88)	3,864.4	+ 5.2	+ 6.3
Domestic Nonfinancial Debt (2nd Q'88)	8,654.0	+ 8.1	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/21/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.44%	7.59%	7.58%
* Federal Agencies	8.07	8.35	8.50
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.95	8.33	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.38	8.53	8.81

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.13%	Nov.	8.07%
15- 29 days	8.13	Dec.	8.09
30- 59 days	8.13	Jan.	8.19
60- 89 days	8.13	Feb.	8.19
90-179 days	8.08	Mar.	8.19
180-239 days	7.75	Apr.	8.18
240-270 days	7.75		

‡ Industrial Paper—Prime			
30- 89 days	8.14%	† Federal Funds	
90-120 days	8.25	Effective Rate	8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,824	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,985	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.0	3.4	5.0
Change in Consumer Prices*	Sep '88n	3.6%	4.8%	3.6%
Change in MH Cost of Living Index*	Sep '88n	8.4%	2.4%	4.8%
Change in Producer Prices*	Sep '88n	4.8%	7.2%	4.8%
Civilian Employment (Thousands of Persons) †	Sep '88	115,328	115,180	112,872
Unemployment as % of Civilian Labor Force †	Sep '88	5.4%	5.6%	5.9%
Personal Income*	Aug '88	$ 4,079	$ 4,071	$ 3,804
Leading Indicators Composite Index (1967=100) †	Aug '88	193.4	192.7	191.7
Industrial Production Index (1977=100) †	Sep '88n	138.3	138.3r	131.0
Net Change in Consumer Installment Credit †	Aug '88	$ 5.44	$ 3.62	$ 4.68
U.S. Merchandise Trade Balance †	Aug '88n	–$ 12.18	–$ 9.47r	–$ 15.08
Plant and Equipment Expenditures*	4th Q'88	$444.40(a)	$440.42(a)	$406.82
Private Housing Starts (Thousands of Units)*	Sep '88n	1,453	1,431r	1,679
New Construction Expenditures*	Aug '88	$ 396.1	$ 398.3	$ 398.3
Total Business Inventories †	Aug '88n	$ 741.7	$ 735.9r	$ 682.2r
Total Business Sales †	Aug '88n	$ 494.7	$ 489.2r	$ 458.1r

***Seasonally adjusted annual rate.** **†Seasonally adjusted.** n-Newly reported figure. **r-Revised.** **a-Anticipated.**

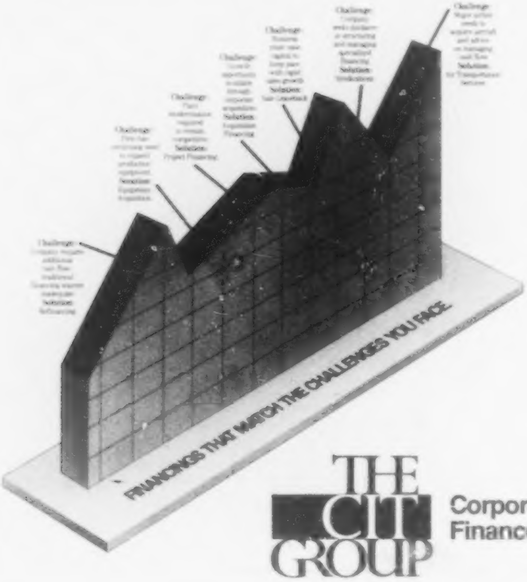
MANUFACTURERS HANOVER Asset Activation

7 FINANCIAL CHALLENGES CEO'S MUST FACE.

Corporate Finance from The CIT Group can carry you safely through them, from rapid growth to cyclical downturns, to vit[illegible]ructurings.

Your company inevitably passes through cycles of growth, consolidation and contraction. Each cycle is different, reflecting the conditions of your company alone. Corporate Finance from The CIT Group applies the power of your assets to counter or capitalize on the challenges each cycle presents.

CIT has offic[illegible], backed by the worldwide r[illegible] Manufacturers Hanover Corporation. [illegible]ar in 1988 we've served more than 90 companies with transactions totalling over $1.7 billion. We'd like to advise and help your company. To learn more, please call (212) 286-3910.


Challenge:
Solution: Refinancing
Challenge:
Solution:
Challenge:
Solution: Project Financing
Challenge:
Solution:
Challenge:
Solution: Sale Leaseback
Challenge:
Solution: Syndications
Challenge:
Solution:
FINANCINGS THAT MATCH THE CHALLENGES YOU FACE.

THE CIT GROUP Corporate Finance

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

```
463        5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014
```

Financial Digest